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Officials’ Promotion Likelihood and Regional Variation of Corruption in China

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ABSTRACT

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Though more serious during the economic reform than in Mao-era, corruption has not totally got out of hand of the Chinese Communist Party (CCP). It is not too rampant to control and its destructive effects appear to have been limited from impeding the economic growth. To study the “resilience” that the CCP has shown in controlling corruption, this research starts from the point that most local administrators are agent of the central governments and simultaneously principal of their subordinates at lower levels; and the most important incentive driving the local agents in the multi-layered hierarchy is their concern for career advancement.

I argue that the middle level administrators’ monitoring of and involvement in corruption is strongly influenced by their prospect of further promotion, or their “promotion likelihood”, which is mainly determined by officials’ age, education level, local performance, and personal connections with the superiors. Their monitoring effort is lowest and corruption is most likely to be the worst when they have a mediocre likelihood of further promotion. This is because the rising stars often have some distinct advantage that others don’t; and the laggards know that their chances of further promotion are nil without much advantage. On the contrary, the mediocre officials believe they have a chance if only some “extra advantage” can be introduced. It becomes worthwhile for them to generate more achievements by all means including corruption and to cultivate more personal connections, possibly by bribes, to obtain a promotion. In brief,
there is an “inverse-U” relationship between officials’ promotion likelihood and the degree of local corruption. Degree of corruption varies across regions according to the local administrators’ career prospects.

The causal mechanism is applied to explain the real estate corruption and office-buying-and-selling cases in recent years, utilizing interview notes of fieldwork in China. I also construct an original dataset of estimated corruption based on provincial level excessive real estate investment between 1995 and 2004. Combining this data with proxies of provincial administrators’ promotion likelihood, I statistically test the proposed hypotheses and some existing explanations to corruption.
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To My Parents
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Chapter 1 Introduction

Corruption was, and is, a serious problem in many countries. The difference is that some governments successfully resolved the problem and put corruption under effective control, while others are mired in rampant corruption and paralyzed. Probably more countries are somewhere in between and their governments are still struggling with corruption and could end up with either result. China is one of those countries. The government has never quit fighting corruption since the Chinese Communist Party (CCP) took power. One scholar notes that “no country in the world has engaged in so many nationwide anticorruption campaigns as China (Gong 1994: xv).” Despite all the efforts, corruption has never stopped plaguing Chinese society.

Instead of looking for reasons of corruption or failure of constraining corruption which has been studied extensively by existing literature, this research is interested in the “resilience” that the CCP has shown in controlling corruption. While corruption has no doubt been more serious during the economic reform than in Mao-era, it has not totally got out of hand of the CCP. In spite of all potential harms on economy discussed by existing theories, the destructive effects of corruption appear to have been limited from impeding the fast speed of economic growth.

Andrew Nathan (2003) recalls that during the Tiananmen crisis in June 1989 many China specialists and democracy theorists, including him, expected the CCP to fall to democratization’s third wave. The prediction follows the regime theory that authoritarian systems are “inherently fragile because of weak legitimacy, overreliance on coercion, overcentralization of decision making, and the predominance of personal power over institutional norms (Nathan 2003: 6).”
However, the regime not only survived but also reconsolidated itself in the following years. It put down inflation, expanded international trade, absorbed more foreign direct investment, and normalized foreign relations with the western world. Though encountered with various suspicion and criticism domestically and internationally, the regime recommitted Hong Kong to Chinese sovereignty, won the right of and held the 2008 Olympics in Beijing successfully, and crushed political dissidents and national separatists. And very recently, its swift response to the 8.0 magnitude earthquake in Wenchuan, Sichuan province and more open than usual attitude to international relief has won the government a wide praise internally and externally. About fifteen years after Tiananmen, Nathan finds China, “this particular authoritarian system has proven resilient.”

The resilience of the regime is also seen in its struggle with corruption. By some international surveys, such as the Corruption Perceptions Index of the Transparency International, the degree of corruption in China has actually been slightly mitigated since 1995. The questions are why China, a poor and authoritarian regime, has been resilient in keeping corruption from totally losing control? Why the destructive effects of corruption have been limited such that high corruption could coexist with rapid economic development?

Studying these questions is not to suggest that China is a successful example of combating

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corruption. It is not. The objective of this research is to explore the evolution of official corruption in recent years and, through it, to study the adaptability of the CCP. How does the party manage to preserve its effective leadership and the implementation of coherent policies, when integrity of party cadres is largely problematic? Is the resilience the regime has shown just lingering on in a steadily worsening condition or a transition to a “cleaner” or less corrupt government? Answers to these questions could contribute to existing theories on corruption and regime type as well as corruption and development.

**Local Officials’ Promotion Likelihood and Regional Variation of Corruption**

This research starts from the point that most Chinese local administrators are agent of the central governments and simultaneously principal of their subordinates at lower levels. The most important incentive that drives these local agents is their concern to get more power through promotion in the multi-layered hierarchy. Chapter 3 will show that the prospect of further promotion of local officials, which I define as promotion likelihood, is mainly determined by three factors: 1) performance within the jurisdiction, mainly generating economic growth, increasing fiscal collection, and maintaining social stability; 2) personal characteristics, especially one’s age and education; 3) personal ties with one’s superior in charge of promotion (Bo 2002, Huang 1996, Landry 2002, 2004, Lee 1991, Shih 2004).

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4 As many examples of the predatory states in Africa show when corruption is massive at lower levels of the bureaucracy, officials are busy at pursuing their own interests rather than working with each other to implement coherent policies. For example, see Alan Draper and Ansil Ramsay, *The Good Society: An Introduction to Comparative Politics* (Pearson Education, Inc. 2008), p220-225. As Pei Minxin (2006) argues that the gradual economic reform in China has resulted in a decentralized predatory state, where local government agents predate the society to enrich themselves. See Pei Minxin, *China’s Trapped Transition: the Limits of Developmental Autocracy* (Harvard University Press, Cambridge, 2006). Referring to these observations, it is puzzling how the CCP has been able to hold the state and the cadre corps from falling apart as in many African countries.
In the past years, the central government has relied more on very specific criteria, and often quantified targets, to evaluate the performance of local officials for consideration of promotion, for example numbers of GDP growth rate or amount of foreign direct investment. It is to some degree similar with the idea of central planning under command economy so as to address the “hidden action” problem in principal/agent relation (Solnick 1998: 26). Officials will be rewarded or punished according to how well they meet the standards.

Simultaneously, local officials’ political career is largely shortened by the enforcement of age limits to retire. For example, right now mayors of prefectures are usually required to retire at the age of 60. A recent policy regulates that for a provincial party secretary, if he/she ends up at the age of 63 after a five year term, he/she would not be allowed to serve for another round. On the contrary, young and well-educated officials are favored for promotion. For example, the Hu/Wen administration has promoted quite a few officials at vice-provincial level, born in 1960s, which means they become higher officials in their forties. Finally, to prevent too intense tie-cultivation, the central government has sped up rotating officials between localities. It has reinforced the short-time pressure for local officials to generate notable growth in only 2 to 3 years so as to impress their superiors to win promotion.

Therefore, the local officials face mounting pressures and incentives to fulfill the targets assigned by upper level governments. This situation on one hand does motivate better performance from the local officials, which helps to explain the rapid growth in the past to a

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5 Right now mayors are usually enforced to retire at the age of 60, provincial party secretaries or governors, even though not enforced, usually leave their position with hard power at 65. And by current retirement regulations, if someone cannot be climb to, say the seat of mayor at 55, his further promotion likelihood is very gloomy.
large degree. But the pressures also elicit corruption and other unethical behaviors from them. For example, because of the importance of economic numbers, many officials inflate economic statistics to cheat upper levels or transfer the financial burden to peasants by levying super heavy taxes. Shorter-time horizon in each locality also causes short-term behaviors of local officials eager for instant success. As Chapter 4 details, many local governments are fanatic in the so-called “achievement projects”, like building fancy skyscrapers or new airports with the money embezzled or squeezed from the really needed projects, like healthcare and education. The intense pressures to get promoted at a relatively young age and the importance of personal ties also make officials resort to monetary means to cultivate personal ties with their leaders, which has led to the reemergence of buying and selling offices in many places, as shown in Chapter 6.

However, the opportunism does not distribute equally among public officials. It varies according to officials’ promotion likelihood. If we divide their promotion likelihood into low, medium, and high, those local officials are most likely to relax corruption monitoring and be involved in corruption, when they have a medium likelihood of further promotion, for they have the most need of bribing their way into promotion. This is because the rising stars often have some distinct advantage, such as age and personal ties; and the laggards know their chances of further promotion are nil. But the mediocre officials believe they would have a chance if only some extra advantage is introduced. It becomes worthwhile for them to generate more achievements by all means including corruption and tolerating corruption and to cultivate more personal connections, possibly by bribes, to obtain a promotion. Bribes are then kicked back
level by level. In other words, there is an inverse-U relationship between local degree of corruption and the local officials’ promotion likelihoods. Control of corruption is therefore not equally distributed across regions. In localities where leaders’ career prospect is optimistic, corruption tends to be relatively limited; whereas if the local administrators are at the crucial age of further promotion, monitoring of corruption is likely to be relaxed.

This incentive view makes two major implications that are different from previous studies on corruption in China. First, the research shows that career concerns, like promotion in this case, of politicians not only can motivate better performance or prevent deviations from norms, but also could elicit the unintended consequences like corruption. As I will show in the following, the principal-agent framework usually explains those behavior deviations by the incomplete or asymmetric information, or the divergent interests between the two parties, as well as the cost of getting caught. The general assumption behind is that the benefits provided by career advancement play mainly as constraints of deviations. However, the research here shows that those benefits could also induce the unintended consequences. Working hard to fulfill the targets assigned by the upper level government and engaging in corruption are really two sides of the same coin. Both types of behaviors are directed toward reaching the rewarding goals, which is promotion here. Later chapters will show that the motivations of both kinds of behaviors could increase, when the possibility to reach the rewards is relatively high.

Secondly, this research emphasizes the pursuit of political power as a strong motive of official corruption in China today. Previous research, while explaining causes of corruption, tends to
focus more on institutional opportunities and assume monetary benefits as the incentive. Closer examination of recent cases shows that for many public officials, exploitation of state offices serves two aims, one is “personal consumption”; the other is “career investment”. The intertwining between corruption and officials’ career on one aspect shows the qualitative intensification of corruption in China, because of the stronger political feature within. In terms of that, corruption in China is more and more like its Eastern Asian neighbors, Japan and South Korea, where politicians take bribes are not solely for the sake of money, but more for their power, or survival in the political arena (Kang 2002, Richard 1996). On the other aspect, the “marriage” between corruption and political career actually reflects the functional effects of corruption, or the informal institutions, in the formal political regime in China.

This is not to deny the institutional explanations to corruption, as corruption caused by career concerns is most likely to exist when there are some serious institutional shortages, such as the lack of an independent judiciary and freedom of press. However, taken those institutional weaknesses as given, how can we explain the relative resilience of control of corruption in China? This research, turning to the motive of official corruption, illustrates the importance of synchronization of short-term and long-term incentives in the whole system. Rather than in the predatory states, corrupt officials in China strive for their security in the wider hierarchy, instead of myopically exploiting their current positions as quickly as possible with little consideration of their life in the long run. In other words, officials with their concerns of career advancement link their own interests more closely with the whole regime than those whose career is going to end
very soon, such as the politicians from insecure regimes. Many corrupt officials in China actually generated some growth once in a while in their jurisdictions, instead of acting completely as “roving bandits” who try to hollow out local economy into own pockets.\textsuperscript{6} As detailed in Chapter 3 and Chapter 4, for many officials, the potential to get promotion in the hierarchy has influenced them in choosing the means of corruption, the partners to cooperate, and the outcomes of corruption. This helps to explain why corruption in China has helped maintain institutional stability to some degree, but corruption in many other countries, like post-Communist Russia, had accelerated the collapse of the regime.

The incentive framework thus provides an explanation to two conflicting outcomes in corruption: the intensification of corruption since reform and the relative resilient control of corruption. The framework, however, leaves room for contingencies. Corruption is sometimes called “victimless crime” (e.g. Azfar, Lee, and Swamy, 2001). Given its criminal nature, corrupt behavior is inevitably also influenced by the risk-taking or risk-averse nature of individual person. Even though two officials face completely same promotion likelihood, their different risk-taking preferences could result in very different outcomes in corruption. Similarly, the external environment sometimes could change individual behavior to a large degree. Chapter 6 shows when a middle level governor is seriously corrupt, most of his/her subordinates will have to follow the informal rule of promotion by bribery, and otherwise they could be excluded from

\textsuperscript{6} For the analogy and different incentives of “roving bandits” and “stationary bandits”, please see Mancur Olson, “Dictatorship, Democracy, and Development”, \textit{American Political Science Review}, Vol. 87, No. 3, September 1993, pp.567-576. No doubt, in China today, there are local officials behave like predatory rulers or “roving bandits” as exposed in some corruption cases, for example Li Dalun in Chenzhou Hunan province, Ma De in Suiba Heilongjiang Province, etc. But it is also shown in many cases uncovered so far that the corrupt officials did contribute to some degree in local economic development, especially in the first few years that they got into the positions.
the formal hierarchy. In that case, promotion likelihood is not the major factor determining whether an official will be involved in corruption, though it might influence how deeply he/she will be involved.

In the rest of this chapter, I first provide an operational definition of corruption based on current debates on the concept. This is followed by a brief review of changes of and explanations to corruption in contemporary China from the era under Mao to economic reform. I then discuss the contribution that this research hopes to make to existing literature. Following the theoretical review, I propose the analytical framework in this research—the principal-agent framework—that I borrow from institutional economics and show that getting promotion is the most important incentive that the central government drives local officials in China. And finally are the research design and a chapter map of the research.

**What Is Corruption? An Operational Definition**

The conceptual confusion of corruption is well-known. It is partly due to social scientist’s practice of defining and redefining the term to meet their research needs; partly because of the fickleness of the reality—what is corrupt in one society and one time period might not be corrupt in another. With the birth of Weberian bureaucracy, there comes the distinction between private purse and public expenditure, as the office-holder is separated from his office. “If the culture of the society does not distinguish between the king’s role as a private person and the king’s role as king, it is impossible to accuse the king of corruption in the use of public monies (Huntington 1968: 60).” And Scott warns us that definitions of corruption involve complicated political
meanings and they are subject to negotiation and manipulation by the dominant class bloc (Lo 1993: 3). Thus, notion of corruption is also related to the social position of the individual who defines it.

Not aiming to dip into the vexing discussion of the concept, I use the classical approach and define corruption by four necessary attributes drawing from the commonality of existing definitions: (1) the main participants of corrupt behaviors must include public agents, such as officials, politicians, and civil servants. This is to narrow down the research to corruption within the public sphere or at the interface between the public and private spheres. Many findings on public corruption could be extended to corruption in private sectors. (2) The transaction must involve using of public authority, power, and resources. (3) The objective is to acquire private interests. (4) The behavior deviates from the prescribed norm.

Corruption defined in this way could include both the form of usurpation of public authority for private gain, such as bribery and embezzlement, and non-economically based forms of official malfeasance involving for example abuse of power, such as torture, neglecting official duties (duzhì), and shirking (xiedai). For the second form of public-power-abusing, there is a little disagreement among scholars whether it should be included into corruption. Scholars, such as Alan Liu, Ting Gong, and Julia Kwong, etc. tend to define corruption broadly and embrace behaviors like negligence into the definition. “Negligence occurs when material or human damages result from neglect official duties, for example, failure to perform one’s duties, or to perform them correctly and competently, or acting recklessly outside one’s duties (Sun 2004:
Abrogating the public responsibilities (buzuowei) is another way to violate an official’s role as an agent of the state. On the contrary, Wedeman argues that if economic consequences of corruption is the main research interest, there is a need to distinguish different forms of power abuse and define corruption narrowly—mainly the economic offences. For the economic offences “transforms and privatizes public authority”, while non-monetary abuse of power “results in decay of the state” (Wedeman 2004: 898). Here, by the classic approach of definition, whether the second form of power abuse is corruption depends on the purpose of the behavior. If a public official abuses his/her power for private interests, then the behavior can be regarded as corruption.

“Private interests” in the third attribute are broadly defined, including monetary types of gains, such as gifts, materials, and non-monetary types of gains, such as offices, power, and status. Those benefits could be obtained to serve not only individuals, families, or the clan of a public official, but also a group of officials, a whole government department, a public organization, and even a region. The word “private” is used in relative to the overall interests of the nation and a political party. Several authors are aware of group corruption in organization and have named it differently, such as “collective corruption”, “syndicated corruption”, “organizational corruption”, and “institutional corruption”. The ultimate goal and outcome of this type of corruption is identical to individual corruption to the end—illegal gains. For instance, public institutions make profits by engaging in business activities (such as a public bank entering the stock market),

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7 Whatever name is used, it refers to the type of corruption where groups of officials rather than individuals are involved. Wedeman (1997) in footnote 4 has a discussion of this definition issue.
setting up satellite companies, and imposing fines or collecting administrative fees or charging
the so-called “service fees”. The income made in these ways are put into their own coffers and
often distributed among institutional members as bonuses and welfares.

For attribute (4), many previous definitions have explicitly or implicitly applied some norms
to judge whether a behavior is corruption. For example, Huntington defines that “corruption is
behavior of public officials which deviates from accepted norms in order to serve private ends
(Huntington 1968: 59).” To Joseph Nye, corruption refers to “behavior which deviates from the
formal duties of a public role because of private-regarding (personal, close family, private clique)
pecuniary or status gains; or violates rules against the exercise of certain types of
private-regarding influence”.\(^8\) Corruption, thus defined, is seen as a measure or a symptom of
the absence of effective management of the state and political institutionalization (Huntington
1968; Rose-Ackerman 1999). According to the norm that is used as reference, be it morality,
government regulations, party disciplines, or formal laws, the boundary of corruption expands
and contracts.

A group of researchers defines corruption in terms of its consequences on public interests,
mainly the negative impacts. “Scholars who apply this kind of definition maintain that the
concept of the public interest is useful, even necessary, to demonstrate the essence of concepts
such as corruption (Lu 2000: 8).” Carl Friedrich argues that “the pattern of corruption can be said
to exist whenever a power holder who is charged with doing certain things, that is a responsible

\(^8\) J. S. Nye, “Corruption and Political Development: A Cost-Benefit Analysis” in Arnold J. Heidenheimer, Michael Johnston, and
p.966
functionary or office holder, is by monetary or other rewards, such as the expectation of a job in the future, induced to take actions which favor whoever provides the rewards and thereby does damage” to the public and its interests.⁹ The Chinese official definition regards the damage to public interests as a necessary condition (and outcome) of corruption. “Corrupt behaviors (included in Party Disciplinary violations) must be dangerous to the Party, state, and people’s interests.”¹⁰ However, conceptualizing corruption by its impacts makes the discussion of the effects of corruption problematic, as it defines out the existence of cases of beneficial corruption (Khan 1996: 684). Therefore, “negative impacts on public interests” is not included among the necessary characteristics of corruption.

In practice, as a Leninist state, a large proportion of the Chinese society consists of public sectors. Most government officials and bureaucrats, as well as executives of State Owned Enterprises (SOE) and public organizations are Party members. They are subject to both the formal laws and Party disciplines, which actually holds high moral standards. The term corruption, therefore, has been used in the official language and by the public to refer to a wide variety of official wrongdoing. It includes behaviors from the typical corrupt delinquency, such as bribery, embezzlement and graft, which constitutes an important part of “economic crimes” in the “dictionary” of the Chinese Procuracy, to malfeasance such as squandering public resources, nepotism, and dereliction of duty; and from the “unhealthy work style” such as bureaucratism

and irregular fees collection to moral decay such as cheating, whoring, and keeping mistresses.

The core interest of this research is in corrupt transactions involving more than one party, such as bribery, for two reasons. First, bribery is a more complicated type of corruption, which usually involves more perpetrators than in outright stealing like grafts or embezzlement. Second, bribery is the major type of corruption in contemporary China. In 1980, bribery and extortion together counted for about 8 percent in all the corruption cases reported by the Chinese media between 1977 and 1980 (Liu 1983: 77). However, cases about offering and taking bribes have increased to 80 to 90 percent among all the revealed cases from 1980 to 2005 (Guo 2008: 357). Focusing on bribery also makes the research operational.

**Variation and Causes of Corruption in Reform China**

This section attempts to illustrate the potential contribution that the proposed framework aims to make to current literature by quickly reviewing the changes of and existing explanations to corruption. Existing theories trace the intensified corruption in recent decades mainly into three aspects—the economic reform, the political structure, and the self-interested officials. Among the three schools, the first offers a more dynamic explanation to the variations of corruption over time, as corruption is treated as the by-product of the reform policies. The structural explanations stress more on institution quality, such as the Chinese tradition and the political systems of the CCP that appear to be stable through years and lead to serious corruption. The third school concentrates more on the self-interested incentives of the officials at micro level, which complements the first two schools’ macro approach that focuses on the external opportunities of
I argue that current theories, though systematic, suffer from two problems. First, they tend to simplify officials' corruption motives as monetary gains. Career concerns, or power pursuit itself, can be a strong incentive that induces political corruption. Corruption motivated by pure monetary gains and that elicited by career concerns could generate different impacts institutionally. While the former usually works against the formal institutions and lead to institution dysfunction, the latter sometimes might play a functional effect on formal institutions, since career advancement in the formal institutions is the prior objective. Secondly, existing theories have not adequately illustrated why the CCP has been able to prevent corruption from spreading rampantly and totally losing control of it. I argue at least one of the reasons is that official corruption in China is largely motivated by their career concerns, which, counter-intuitively, helps constrain the degree of corruption in China to some degree.

Official misconducts actually existed during the earlier years of the People’s Republic of China (PRC). Although the 1950s are often remembered in retrospect as the golden age of the new regime, mass movements against corruption were launched in the cities only two years after the CCP took power (Perry 1999: 312). The Three Antis and the Five Antis campaigns in 1951-1952 targeted first cadres (anti corruption, anti waste, and anti bureaucratism), and then private entrepreneurs (anti bribery, tax evasion, theft of state assets, cheating in labor and materials, and stealing state economic information) in an initiative intended to eliminate a range of infractions quite similar as those denounced in contemporary campaigns.
In the 1960s and 1970s, a series of political mobilizations was launched, including a new Anti-Rightist-Orientation Campaign, the Socialist Education Campaign (also known as the “Four Cleanups”), and the Cultural Revolution. They differ from earlier campaigns in that “the party leadership went outside the party to mobilize the masses to attack Party/state officials who, it believed, after many years of governing, had become bureaucratic and corrupt and a part of the new bourgeois class elements or their allies (Lu 2000, 114).” Despite the highly concentrated scrutiny of cadre malpractices, the Maoist efforts were far from sufficient to eliminate corruption. According to Baum, the result of the “Four Cleanups” was “the most intensive purge of rural party members and cadres in the history of the Chinese People’s Republic” (Baum 1975: 170). And “official deviance including corruption—as much as it was the target of these intense political mobilizations—became even more pronounced” (Lu 2000: 115).

Real explosion of corruption occurred after the economic reform was carried out. Existing studies agree that corruption in China has grown in frequency, scale, and complexity during the post-Mao era, which concurs with the government opinion. Former Deputy Procurator-General Liang Guoqing acknowledged in the fall of 1993 that corruption was “worse than at any other period since New China was founded in 1949. It has spread into the Party, government, administration and every part of society, including politics, economy, ideology and culture.”

Public resentment at the increasing official corruption since 1980 and mismanagement of the economy triggered the Tiananmen uprising in 1989. Though cracked down by the government,

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the democratic movement alerted the Party center to pay serious attention to anticorruption. A series of publicized anticorruption campaigns was launched by the Center soon after the Tiananmen incident and thousands of corruption cases were filed and investigated by the procurators legally (Figure 1.1). Currently between 30 to 50 thousand cases involving bribery, embezzlement, and misuse of public assets are investigated by the procuratorates annually. More cases containing high stakes (i.e. amounts above Y100,000) and senior officials are uncovered. Figure 1.2 shows that the number of county and above officials involved in corruption are steadily increasing since 1990. The ascending trend of handling senior official cases on one hand results from the Center’s tactic adjustment that is turning the anticorruption spear to big and important cases; on the other hand reflects that corruption in China has undergone a change from quantity to quality (Wedeman 2004). Corruption is not yet under effective control, even though the total sum of disclosed cases has seen to be slightly declining in the latest ten years compared with that of the early 1990s.

Figure 1.1 Sums of Cases of Bribery, Embezzlement of Public Assets, and Misuse of Public Funds Filed and Investigated by the Procuratorates, 1979-2006

![Figure 1.1 Sums of Cases of Bribery, Embezzlement of Public Assets, and Misuse of Public Funds Filed and Investigated by the Procuratorates, 1979-2006](image-url)

Notes: Corruption is categorized as “economic crime” before 1995 and “office abuse” after. The crimes of bribery, embezzlement and misuse of public funds are not clearly listed out after 2002 in either the Annual Work Report of the Chief Procurator or in the Yearbook. I use the total number of “office abuse” cases for 2002-2006, in which the three types of crimes surely form as the majority. The sums of three types of cases since 2002 are actually inflated, which, however, does not change the general declining trend.

Figure 1.2 Number of Senior Officials Filed and Investigated by the Procuratorates, 1990-2007


Reform and Corruption

Because political corruption became widespread soon after the beginning of the economic reform, many researchers have attempted to identify connections between the two events. A large camp of literature argues that the post-Mao corruption is the by-product of economic reform, whose trajectories have been largely responsible for the structural opportunities and incentives of corruption. The juxtaposing elements of a planned and market economy created rents that public
officials either scraped off directly or sold to others. However, as Wedeman points out, existing studies actually have competing views on the path that corruption has developed along with the economic reform.\(^{12}\)

The first view tends to argue that corruption has increased apace with reform. As articulated by Hao and Johnston, “the deepening of reform has led to an ‘upward’ spread of corruption from the rank and file to the leadership and an ‘outward’ spread of corruption from the party-state apparatus to society at large.”\(^{13}\) In a variant of this perspective, Lu and Gong see reform has changed the pattern of corruption and resulted in a proliferation of different forms of corruption (Gong 1997; Lu 2000). Similarly Sun argues that the strong linkage between corruption and reform is shown both “synchronically across different periods of changing reform policies; and horizontally across different localities of diverse development trajectories (Sun 2004: 20).” Simultaneously, the proliferation of corruption has in turn given rise to a “climate of corruption” or weakened the structural disincentives against corruption (Liu 1983; Sun 2004). The moral decadence exacerbates the negative consequences of reform by “validating the use of public office for personal gain, while also corrupting the political system as officials banded together for protection and state institutions become instruments for pursuing illicit gains.”\(^{14}\)

\(^{12}\) Andrew Wedeman, “Reform, Corruption, and Growth in China”, 2003. The original paper is presented in APSA 1999. The revised manuscript is provided by Wedeman to the author personally.


In contrast to the monotonic model, He Zengke proposes that the reform and corruption developed in a dialectic manner. “That is, as reform deepened, a process developed wherein a particular set of reforms eliminate certain forms of corruption, only to create new forms of corruption (Wedeman 2003: 1).” He sees corruption having evolved in three waves by the time he writes the article (2000). The first wave of economic crimes reached its peak in the early 1980s, when the Chinese government began to allow a market system to exist in parallel with the planned allocation of resources and the concomitant planned price system. However, consumer goods, particularly certain high-quality goods were still in short supply. The resulting price differential for consumer goods spawned black markets and let consumers search for “back door” deals to obtain scarce goods either through personal networks (guanxi) or by bribing officials who controlled quotas. But during this first wave of corruption, public officials and public institutions had not yet engaged in large-scale speculative and smuggling activities (He 2000: 250). Subsequent reform decreased entry barriers, encouraged the expansion of the collective and private sectors, and increased production by the state sector, which eventually eliminated the shortage of consumer goods and narrowed the price differentials, and thus eradicated the need for petty bribery. But the expansion of the non-state sector stimulated demand for inputs and producer goods, so the second wave of corruption reached its climax in the mid-1980s, when controls over the allocation of these goods were relaxed and a “dual track” price system

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15 “Petty bribery” or “petty corruption” refers to those small amounts of bribes or favors often paid to holders of junior positions in public services. This kind of corruption tends to be more prevalent in poor societies, and because it is actually linked with higher level systematic and systemic forms of corruption, it is not likely to be solved by “quick-fix”. See Stephen P. Riley, “Petty Corruption and Development”, Development in Practice, Vol. 9, No. 1/2. (Feb. 1999), pp.189-193
established. During this period, “official profiteering” (guandao) increased dramatically as cadres sought to capture rents by arbitraging between low “in plan” prices and higher “free market prices”. At the same time came a rampant “company rush” (gongsi re); that is, public officials, individually or through their work units, ran satellite companies (guan shang). The prevalent official engagement in speculation finally led to public indignation in the 1989 anti-corruption demonstration. The second wave of economic crimes gradually receded when the price reform in the early 1990s largely eliminated the rents created by the dual track system. The third wave of economic crimes occurred around 1993 and reached its peak in mid-1990s. During this period, China began to establish a market in the factors of production, including a stock market, futures market, real estate market and a capital market, however, without any effective regulations of such economic activities. The imperfect and incomplete market system and the huge profits generated by the speculative activities spurred an explosion of high level corruption as organizations and individuals used their leverage over land and capital to scrape off vast sums. Compared to the early two waves, the scale of corruption was wider, the size of the illicit gains was larger, the proportion of senior officials involved higher and the number of work units higher still (He 2000: 251). He predicts as present restructuring of state-owned enterprises (SOEs) becomes the new focus of market-oriented reform, corporatization and privatization will give rise to large scale “asset stripping” and pocket swapping” as the managers and controllers of SOEs either sold off their assets or transformed them into de facto “private” companies. In sum, Deng’s incremental approach to reform has reduced the structural basis of “petty corruption”,
while creating opportunities for high stake corruption. Hence, the deepening of reform has led to a progressive worsening and intensification of corruption (Wedeman 2003: 2).

Despite the differences, the two competing views share at least two commonalities. First, no matter in a monotonic or a dialectic path, both views agree that corruption has intensified along with the reform. Secondly, both views have provided a dynamical explanation to the corruption, as they link specific forms of corruption to the changing reform policies. This forms a contrast to the relatively static explanation of the structural approach, which emphasizes more about the macro institutions that are inert.

**Political Structure and Corruption**

The structural explanations to political corruption often stress the institutional quality more directly and look for causes in a wider arena, from colonial history, religion, to legal system, and political institutions. In such approach, “the nature of social practices in a country can be seen as a reflection of the long-term development and organization of its social and political system.”

Some studies emphasize the cultural and historical reasons of corruption and see them as a structural given. For instance, the fact that southern European states (Italy, Spain, Greece) are more corrupt than their northern neighbors (particularly, Scandinavia, the Netherlands, and Britain), though both are western democracies, is often attributed to cultural factors (Boissevain

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Similarly, while explaining corruption in South East Asia, several scholars have shown how particular practices have become culturally embedded over the course of generations (e.g. Myrdal 1968; Smith 1971).

Reasons of contemporary corruption in China is also traced back to the history and traditional culture. For example, He Zengke notes that certain traditional factors have contributed to the growth of corruption. “One is the cultural heritage of absolutist rule that lasted for 2000 years and only ended at the beginning of the 20th century. Under such rule, rulers treated the state as their own private property and bureaucrats treated their power as theirs while the idea of public trust and empowerment were non-existent. Such attitudes are still very common among public officials.” The other factor is that many social customs and practices of agricultural society are still very popular today. A large number of public officials come from peasant families and rural areas. They consequently bring many traditional practices into public life, such as giving preferential treatment to those with whom they have close relations (He 2000: 255).

The structural approach to corruption places particular emphasis on the political institutions of a regime. Though it is more and more viewed as not the preserve of authoritarian or developing nations, political corruption in established western democracies is usually seen as an aberrant deviation from the norm (Heywood 1997: 1). This is because some democratic mechanisms minimize individual official’s incentives to engage in corruption. In democracies, politicians compete for election and re-election and constituents can replace politicians (Rose-Ackerman 1978). The basic freedom of speech, assembly, and information transparency of democracies also
helps monitoring public officials, thereby limiting their opportunities for corrupt behavior. Besides, the possible turnover of power in democratic elections implies that the politicians cannot always credibly promise that particular laws and regulations will continue in the future, which decreases the size of bribes that a client is willing to pay.\textsuperscript{18}

In this line, the real cause of corruption in China is the “political-economic order” that preceded the market reforms (Johnston & Hao 1995), while the economic reform is only a contributing factor of the intensified corruption. The Maoist system was built on revolutionary ideology, a charismatic leader, and party-state dominance. “It lacked a number of critical boundaries that make possible a viable civil society, including distinctions between public and private domains; between individual and collective rights and interests; between politics and administration; among market, command-based, and patrimonial mechanisms of allocation; and between state and society. As a result, once the reform transition began, China was unable to contain either market forces or official exploitation.”\textsuperscript{19} The persistency and path dependency of institutions have also prevented the CCP from “adapting itself to, and be transformed by the routinization and bureaucratization that characterize modern bureaucracy; at the same time, it is unable to maintain its original distinctive competence and identity (Lu 2000: 22)”. Thus, the problem of corruption could not be resolved solely by conducting ideological indoctrination or market reforms; instead, a structural change with political reforms should be introduced to

remove the underlying roots of corruption (Ma 1989; Johnston & Hao 1995).

In the past decade, China has made a transition from totalitarianism to a classic and more institutionalized authoritarian regime, and one that appears increasingly stable (Nathan 2003). Institutionalization of authoritarian regimes typically exhibits regularized succession mechanisms and collective decision-making procedures that curtail a ruler’s personal power, which is an improvement compared to the Maoist autocratic manner. But, as Slater (2003) notes, they are neither the sole nor the primary purposes of authoritarian institutions. “Whereas democratic institutions serve to provide predictable patterns of representation, authoritarian institutions primarily serve to provide a stable basis for domination. The raison d’etre of authoritarian institutions is not to constrain ‘despotic power’, but to supply a regime with the ‘infrastructural power’ necessary to implement its command over potential opposition in civil society and within the multiple layers of the state apparatus itself. While democratic institutions serve to keep the executive in check, authoritarian institutions serve to keep political opposition under wraps.”20 Hence, the political regime is inherently lack of political competition, an important factor precludes corruption.

**Self-Interested Agents**

Though stressing different aspects of the causes of corruption, previous explanations have actually all emphasized on the external opportunities of corruption surrounding an agent. An alternative approach is agency-based, which rests on analyzing the motivations of those who

become involved in political corruption. There are several variants of such an approach, but a general assumption underneath is that the public officials are self-interested agents who care most about maximizing their own utility (Heywood 1997).

An influential view deriving mainly from within the discipline of economics sees political corruption largely as the product of growing state intervention. For instance, Susan Rose-Ackerman argues, “Corrupt incentives exist because state officials have the power to allocate scarce benefits and impose onerous costs.”21 This view indeed complements the reform-oriented explanation to corruption; that is, the agent’s incentives to engage in corruption are created by the numerous opportunities available during the market reforms. The opportunities that could generate corruption incentives also include the weakness of regulatory policies and anticorruption institutions (He 2000; Cheng 2002). It follows that if market competition and political competition could remove the public officials’ decision-making capacity over resource allocation within the public sphere, there should be fewer opportunities and therefore fewer incentives of corruption.

Other perspectives emphasize more about the internal motives of the public officials to seek profits. One view is that the sense of public ethos which used to be highly developed among those who entered politics has been dissipated by the rise of venality of the “career politicians”. The careerists, with little interest in national political issues, are self-interested and care primarily for

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21 Susan Rose-Ackerman, Corruption and Government: Causes, Consequences, and Strategies for Reform (Cambridge: Cambridge University Press, 1999), Ch4. p. 39
personal gains.\textsuperscript{22} (Rogow and Lasswell 1963). This view is consistent with the widely condemned ideological and moral decay of Communist cadres in China since the reform. Another popular view suggests that the low levels of financial reward for public employees provide an impetus to engage in corruption (Heywood 1997: 12). In China, the 1978 reform broke down the prior equalitarian distribution of income. While the income of some new social strata such as private entrepreneurs and white-collars in foreign invested firms increased rapidly, the public officials’ income was relatively low and increased only slowly. The increasing income gap drives government officials and public institutions to seek extra income to supplement their own or their staff’s low salaries (He 2000: 251). In a wider sense, Chang (1995) argues that the reform and opening door policies since 1979 has taken the hood off the long suppressed aspirations of all Chinese for monetary gains and material enjoyments, so the profits-making incentives do not only exist among officials but in the whole society, which encourages the “culture of corruption”.

Following this perspective, political corruption should be lower where financial rewards and incentives are higher. However, evidence on this issue is far from clear-cut. Scholars such as Ades and Di Tella indicate that in Singapore for instance, it is difficult to determine whether the honesty of government is because of the very high salaries paid to public officials, or because of tough law enforcement measures (Heywood 1997: 12).

\textit{Beyond the Existing Explanations}

Existing studies have provided systematic explanations to the variation of corruption in reform-era China. The present research hopes to complement the literature from two aspects that have not been explored much. First, the latent assumption in most existing theories is that official corruption is mainly driven by the pursuit of private interests. Though “private interests” are usually widely defined to include all kinds of gains, most scholars equal them fundamentally to huge monetary profits. Apparently correct and reasonable in most cases, this assumption neglects the non-monetary based motive, such as power and positions. The questions are: Will officials motivated by power behave the same as those who are induced by monetary benefits when engaging in corruption? Will officials in the two kinds respond to the institutional opportunities of corruption in the same way? Will corruption that is elicited by different kinds of motivations generate same effects and consequences to the society?

Few studies have looked at these questions and most existing literature that pays attention to power-motivated corruption has located their cases in democratic scenarios, such as the “machine politics” that relies on patron-clientelism to mobilize votes. Recently the financing of political parties and campaign funding to support politicians to win elections (especially in the US and Japan) have become issues of central concern in relation to political corruption (Heywood 1997: 14). For instance, Malamud and Posada-Carbo (1997) using examples of Europe and Latin American show though regulations over the funding of political parties and electoral campaigns vary widely, in all democracies there has been an inexorable upward trend in

This is caused by several reasons including the ever greater reliance on television advertising as a means to communicate with electorate; fees to political consultants and the spiraling expenditure on fund-raising initiatives. In addition, while once parties relied largely on the activists and volunteers for various work, they are now more dependent on costly professional campaign teams, driven by the “Americanization” of the political process in most democracies. Facing the more expensive battles to maintain a high public profile, political parties and politicians are under-resourced and forced to seek to exploit all avenues in the search for funds. Several of recent corruption scandals in democracies have involved political parties engaging in secret financing, rather than individuals seeking personal benefit (Heywood 1997: 15).

In authoritarian regimes, power for most officials is sought through promotion. Though promotion might not be as expensive as popular election in democracies, it is also a complicated game that those careerists have to spend various resources in reaching the goal. However, little research has been done on relation between promotion in authoritarian regime and corruption.

Secondly, while focusing on the intensification of corruption in reform era, the existing theories have not adequately explained why China is able to at least prevent corruption from spreading rampantly. Non-democratic regimes are seen as a “poor man” who is deprived of policy choices and capability in curbing corruption. For instance, Rasmusen and Ramseyer (1994)

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suggest that decision-making groups such as democratic legislature will supply more rent-creating or rent-redistributing policies than decision-making individuals (such as authoritarian leaders). “But because it is more difficult for groups to co-ordinate, individual legislators are forced to take smaller bribes than the costs they incur. Since they cannot capture high bribes and yet must suffer the externality costs of policies passed by their colleagues as well as corrupt behavior by bureaucrats, democratic politicians will be more likely than authoritarian leaders to pass anti-corruption policies and to ensure that they are enforced.”

Therefore institutionally, authoritarian regimes tend to be less motivated to fight corruption than democracies.

Yet, the Party center of the CCP has maintained the intention and shown more commitment to anticorruption in recent years. Besides periodic anticorruption campaigns and constant exhortation of the cadres, many new laws and regulations are stipulated on supervision of corruption and punishments. Big and important cases are more stressed during corruption investigation. Serious though, it would be exaggerating to say that corruption in China is out of control so far. According to the standard of the Transparency International, the Corruption Perception Index (CPI) of China scores around 3.3 to 3.5 over a total of 10, which means corruption is serious but not yet rampant. Figure 1.3 illustrates that the severity of corruption is lessened somewhat in late 1990s and then is kept at a relatively stable level. The scores of China


27By standards of the Transparency International, CPI lower than 3 means corruption is rampant in a country; CPI between 3 and 5 means corruption is serious.
are indeed higher than that of several democratic countries, for example Argentina, Bolivia, and the Philippines.

Figure 1.3 Corruption Perception Index Scores of China, 1995-2007


Results from several other worldwide surveys about corruption also show that the degree of corruption in China does not aggravate significantly in the past ten years. Figure 1.4 summarizes the ratings of China in corruption surveys conducted by different organizations among public sector, private sector, and NGO experts, as well as thousands of citizen and firm survey respondents. Individual ratings of those surveys have been rescaled by Kaufmann et al. to run from 0 (low) to 1 (high) to generate the World Bank Governance Indicator. Though the scores from different indicators are not directly comparable with each other since different data sources use different units and cover different sets of countries, they are comparable over time for the same country. Among eight indicators that Kaufmann et al. use to construct “control of corruption” for China between 1996 and 2006, six of them maintain a relatively stable trend and show no significant worsening of corruption over years.  

Environment Risk Intelligence (BERI) have remained at a constant level since 2000. For most indicators, in spite of some fluctuation from year to year, no significant overall improvement or deterioration exhibits over time.

Figure 1.4 Scores of Corruption in China by Various Indicators, 1996-2006


Notes: BERI: Business Environment Risk Intelligence Business Risk Service
GCS: World Economic Forum Global Competitiveness Survey
PEI: Political Economic Risk Consultancy Corruption in Asia
BERIF: Business Environment Risk Intelligence Financial Ethics Risk
GIBCRI: Global Insight Business Conditions and Risk Indicators
MDWC: Institute for Management & Development World Competitiveness Yearbook

A possible criticism to above findings is that those surveys only measure perception of corruption rather than the actual incidence of corruption. And perceptions are largely influenced by respondents’ access to information. This, however, should be a minor problem as we compare the changes of ratings over time instead of across sections. Information flow in China is always

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censored by the government, whereas mass media have indeed become more independent and market driven. They have increasingly positioned themselves as tribunes of public opinions, exposing complaints against official wrong-doing, especially by local-level officials (Nathan 2003: 15; Tang 2005: 83). Therefore, the reported corruption over years demonstrates that the overall level of corruption is controlled at a certain range, though not effectively alleviated.

It is puzzling how the “poor man” has kept corruption from spiraling out of hand. Previous research, such as Montinola and Jackman (2002), finds in cross-country studies that the political competitiveness associated with democracy has a non-linear effect on corruption. Some authoritarian countries actually experience slightly less corruption than those partial democratic countries. Beyond the intermediate level of political competitiveness, more competitive regimes are less prone to corruption. The authors suspect it is because the increase of information and reporting of corruption that typically accompanies democratization. Also, more individuals may be involved in corruption as legislative power is dispersed. However, they do not look into the authoritarian institutions that could possibly rein corruption to some extent. Except those ad hoc monitoring and punishment measures, which are often blamed to be impotent or useful only in a short-run, are there mechanism in authoritarian regimes that could inherently limit the incentives of officials to engage in corruption?

An Analytical Framework: The Principal-Agent Model

To link individual incentives with structural institutions, I choose to study the major puzzles by

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examining the regional variation of corruption under the framework of principal-agent relationship. The principal-agent framework originates from institutional economics, which approaches the business firms as a contractual relationship between the owners and the managers. The owners could delegate some control rights to managers, the agent, to perform tasks in the expectation that the managers will maximize the owners’ profits. Traditionally two types of informational problems are distinguished in these settings by the literature.

The first is hidden action, also known as moral hazard, illustrated by the owners’ inability to observe how hard the managers are working. The second is hidden information that the managers, in general, have superior information about their ability and preferences, and the tasks assigned to them because of their proximity to the job. These two factors could cause shirking and opportunistic behavior of the managers: they will maximize their own interests, whether in leisure or in non-pecuniary consumption, because the costs of these activities are borne by the owner and the costs of being detected are small owing to the unobservability of their actions. Therefore, a basic question of principal-agent model is how to make the incentive of the agent compatible with the interests of the principal without fully knowing the agent’s effort or ability such that the agents could take the correct actions as if the information was symmetric between the two parties.30

The principal and agent relationship actually covers a broad range of human activities and it arises each time when one party, the principal, enters into an arrangement with another party, the

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30 Andreu Mas-Colell, Michael D. Whinston, and Jerry R. Green, *Microeconomic Theory* (Oxford University Press, 1995), Chapter 14 The Principal-Agent Problem
agent, with the expectation that the agent will take actions consistent with the interests of the principal (Huang 1996: 180). There have been several attempts to adopt this framework to analyze political and bureaucratic organizations and corruption behaviors. The complex hierarchy and organizations are seen as a chain of linked or a network of overlapping or nested principal-agent relationship (Eggertsson 1990; Tirole 1986).

This model is sometimes used to explain the central-local relations in China, that the Center is the principal supervising the local government. Previous research has discussed the relevance and advantage of this model as an analytical tool in studying Chinese central-local relations. I briefly summarize as follows. First, the two-party relation in this model is able to analyze the interacting and gaming relationship between the central level and the local level government under a given hierarchical setting. Second, the central-local relation in China possesses similar features as that of the owners and managers in private corporations. China is a unitary state and the Central Committee of the CCP acts as the headquarters of the “multidivisional” system, which ultimately controls the mobility of government officials within the system. The central government delegates executive rights to provincial officials, who in turn gain their decision-making rights, goods and credit allocation from the central government. Finally, the central and local governments have conflicting interests sometimes. For instance, as Huang (1996) points out, “the central government desires economic and political stability and deems investment control as a mechanism to achieve this objective. Provinces have incentives to expand investment, as the benefits of reduced inflation are not fully recouped, but returns from
an expanded tax or revenue base accrue to the provincial coffers (Huang 1996:182-183).”

In current study, I follow Tirole (1986) extending the original two-party frame to a simple three-tier principal-supervisor-agent model. There are two reasons support this. First, instead of a simple Center-local model, the Chinese hierarchy is a multi-layered supervision chain from Center (zhongyang) to provinces (sheng), to municipalities (dijishi) and prefectures (diqu), to counties (xian), to township (xiang) and villages (cun) at the bottom. After 1990s the new personnel system —“one level down management” prevailed, the performances in each level are monitored by its immediate superior, which is also the subordinate of its own supervisor.31 Hence, most Chinese officials are positioned as the “supervisor” in the simple model. And effective deterrence of corruption depends on how strongly the local officials sense the monitoring efforts of fighting against corruption from both the central government and their direct supervisors. The extended model thus signifies the importance to study those positioned at the middle of the hierarchy.

Second, a salient feature of contemporary corruption is the involvement of higher officials and systemic corruption in which officials at different levels of the organizational ladder collaborate. It signifies the “subversion of structures designed to control the behavior of state agents and to prevent them from engaging in self-serving abuse of office.”32 The cases like “Yuanhua

Smuggling”, sales of offices at Heilongjiang, Shanxi, and Hebei, are such examples. The monitors and institutions authorized to control corruption become the organizers of illegal acts and conspire with the agents they suppose to supervise. The three-layered model is therefore necessary to analyze the “collusion” between the supervisors and the agents (Bac 1996; Olsen & Torsvik 1998; Tirole 1986).

**Incentives of Government Officials**

In the extended principal/agent chain, the most important incentive that drives local officials, including both the “supervisors” and the “agents”, is arguably their prospect of further promotion, which I define as “promotion likelihood” of local administrators. We assume officials are self-interested and rational actors, caring about maximizing their own formal and informal returns. There are roughly three ways to motivate a self-interested actor to serve the principal. The first is formal incentives, including monetary reward like piece rate wages, bonuses, and relative performance evaluation based on verifiable measures of performance. The second is monitor from above, peers, and sometimes even from below. Last, career concerns inside and outside the hierarchy may encourage a forward-looking actor to work hard. Among these incentives, perhaps the most important for civil servants and politicians is career concerns. “They are concerned by the effect of their current performance not so much on their monetary reward, but rather on their reputation or image in view of future promotions, job prospects in the private and public sectors, and reelectons. This concern induces them to work to ‘mislead’ the internal

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33 For “Yuanhua smuggling” see David Wank, “Evolving Business-State Clientelism in China: The Institutional Organization of a Smuggling Operation”, for “Office-Selling case” see Chapter 6 later.

or external labor markets about their ability (Tirole 1994: 7).” Chinese officials are no exceptions.

The attractiveness of formal monetary reward enjoyed by the Chinese officials is mainly reflected in various welfare and privileges unavailable to the general populace, instead of their limited salaries. For example, top provincial officials had access to luxury swimming pools, vacation retreats, and air-conditioned offices, as well as superior health services even in 1950s and 60s (Oksenberg 1968: 68). These advantages have gradually lost their glamour as economic reform has created new opportunities for people to earn higher wages and make huge profits, and made many privileges only enjoyed by officials available to average people. Therefore, the formal monetary reward is obviously not a powerful incentive that the Center relies heavily to drive officials, even if public officials are well paid, they might value their positions and have fewer incentives to engage in corruption (Montinola & Jackman 2002). Ad hoc monitoring is neither an effective incentive constraint of official corruption in China. I will discuss the corruption-monitor system in more details in Chapter 2.

On the contrary, officials are strongly motivated by career concerns, mainly promotion given the Chinese political system. This is also the major instrument that the central government has used to manage its cadre corps. The career mobility of an official usually includes promotion, same-ranking mobility, and termination. At provincial level, most provincial secretaries and governors are members of the Central Committee of the CCP. Some of them also seat in the Politburo of the Central Committee. For most provincial secretaries, “the promotion
opportunities lying ahead are membership of the State Council, the vice-premiership, the premiership and membership of the Politburo or the Politburo Standing Committee, and the General Secretary of the Party. Provincial governors, at one level lower than Party Secretaries, can move up to the level of provincial Party Secretary, or to equal-ranking positions in ministries or commissions at the center (Li and Zhou 2005:. 1746-1747).” Same-ranking mobility is another common practice of personnel allocation. For example, the provincial secretaries could be rotated to the same seat in other provinces or to the same rank positions at central ministries.

Apart from promotion and same-ranking mobility, termination, including retirement and demotions, is also concerned seriously by public officials. “Typically, provincial leaders do not retire in the full sense immediately after leaving office unless there are exceptional circumstances, such as poor health. Before retiring officially, they are often assigned, as a transition, to an honorary yet virtually powerless position, such as director of the provincial People’s Congress or chairman of the provincial People’s Political Consultative Conferences. Some are given honorary positions on the National People’s Congress or the National People’s Political Consultative Conference. Whatever gloss may be put on it, the loss of power is what marks the end of an official’s political career (Li and Zhou, p.1747).” Demotion is rarely used to officials at provincial levels except in a few cases, resulting either from tremendous accident, like SARS, or anticorruption campaigns. In most cases, provincial officials are exempt from such severe punishment, and seemingly routine retirement will be used to disguise a dismissal.

The Chinese officials are probably more concerned about their promotion than their
counterparts in western countries. This is not only because “in general, wealth, power, and status in China go to those who can climb the ladder of official position (Burns 1989: xxxii)” but also one peculiarity in official’s career profiles. Unlike corporate managers or politicians in western societies, Chinese government officials have no real alternative to employment outside of the “mono-organizational” cadre hierarchy. If an official is separated from the government hierarchy, there is virtually no avenue for her/him to find a job elsewhere (Burns 1989: xxxii; Li & Zhou 2005: 1747). It is especially the case in 1980s, when career choices were limited, though the situation has changed a little bit since 1990s. “In this sense, it may be appropriate to treat the Chinese political hierarchy as a single internal labor market without outside options. The lock-in effect, coupled with the huge difference in terms of personal benefits between staying in power and relinquishing power, greatly reinforces the incentive for Chinese officials to hold onto their power.”

Therefore, government officials’ concerns about their prospect of promotion and termination become a very important incentive mechanism to motivate them and to fulfill the policy targets assigned by the central governments.

Research Design

This research mainly uses subnational level comparisons combining both qualitative and quantitative approaches. Snyder (2001) explores how subnational comparisons can expand and strengthen the methodological repertoire available to social science researchers. First, the use of subnational units increases the number of observations and mitigates the problem of “many

variables, small N.” Moreover, focusing on subnational units makes it easier to construct controlled comparisons that increase the probability of obtaining valid causal inferences in small-N research. Second, subnational comparisons strengthen the capacity of comparativists to accurately code the cases, as we could give greater sensitivity to within-nation variation and complexity. Third, the spatially uneven nature of major processes of political and economic transformation can be better handled in subnational comparisons. As for studies on corruption, in national-level comparisons, it is often hard to differentiate the effects of political regimes and level of economic development on degree of corruption, since most consolidated democracies are also western industrialized economies. Subnational comparisons can put those macro institutional factors under control. Subnational level studies will also enable us to see processes such as democratization and economic reform, or the cadre management system as shown in this research, often have varied effects across the territorially-defined subunits of a political system.

The major hypotheses are generated from detailed case studies. The materials of case studies are collected from my field interviews in China from 2004 to 2007. I interviewed officials, journalists, scholars, and average people in cities of Beijing, Tianjin, Shanghai, Guangzhou, Nanjing, and the province of Jiangxi. For the basic facts of corruption cases, I only use government revealed cases, collected from newspaper, magazine, and television reports as well as the government publications that are used for education of public officials. Many of those books or brochures are published by the Fangzheng Press, which is the official press affiliated to

the Central Discipline Inspection Commission (CDIC) of the CCP.

As for empirical studies, one of the biggest 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. I finally use excessive real estate investment (REI) as the measure of regional corruption. This is because all the property rights in land belong to the state in China. Theoretically speaking, all first round land transfer has to be approved by the local government collectively. Because of the deep government intervention, corruption has embedded in this industry since the very beginning. It is reasonable for us to suspect that if a local government can grab a big share from real estate development, they will be active in selling land. It will result in over-supply of investment in relation to the economy can really bear. Hence, a high over-investment would indicate a high probability of local corruption. To test the hypotheses, I further combine the excessive REI with proxies of provincial administrators’ promotion likelihood, especially focusing on their age relative to other provincial administrators.

For the unit of analysis, all the administrators between the Center and the village level are middle level supervisors, and should be included in the pool of observations. But for theory building and empirical studies, I locate the research at central-provincial-municipal levels. Provinces are the second level of China’s political hierarchy. As of today, excluding Taiwan, Hong Kong, and Macau, China has 31 provincial units—4 centrally administrated municipalities (CAM), including Beijing, Shanghai, Tianjin, and Chongqing, 22 provinces and 5 ethnic minority autonomous regions. The top leaders at provincial level are the provincial Party
Secretary, and the provincial governors. This reflects the dual presence of the communist Party and government organs at each level of China’s political hierarchy. I concentrate on the provincial officials, because they are the local supervisors immediately under the Central government. Many of them hold central positions simultaneously, like seating in the Politburo, or the Central Committee of the CCP, which demonstrates that these senior officials, to some degree, are treated as gatekeepers by the central government in controlling local level officials. Hence, using the provincial officials as the representatives of all the “supervisors” in Chinese system can help understand the most important principal-supervisor-agent relationship. In the Chinese system, each level copies the institutions one level above, so findings of the first three-layered relation can be applied to lower levels.

The following is the structure of the dissertation. The intensified corruption to a large degree results from the physical and political weakness in the anticorruption system. Next chapter introduces the major anticorruption agencies in China, concentrating on the relationship between them. I then discuss the main problems—the Party control and the multi-filteredness of the anticorruption system— influencing the effectiveness of corruption control and how recent administrations improved and institutionalized the system.

Chapter 3 provides the foundation for arguments made throughout subsequent chapters. I first examine the Party’s nomenklatura system, or the Cadre Management System (CMS) that determines local cadre’s career with a brief review of the competing views on the effects of CMS on official corruption. With their one-sided conclusions, previous studies are unable to tell on what
conditions CMS can constrain or induce corruption. I suggest looking into how the CMS shapes the prospect of further promotion of local officials—the most important incentive of Chinese officials—and argue that the rewarding goals sometimes could also elicit corruption and other unethical behaviors from both rational choice and psychological perspectives. I further explain how the local officials’ incentives to work hard and engage in corruption to obtain promotion have changed with the reform of CMS. I conclude this chapter by proposing the inverse-U relationship between promotion likelihood and local corruption.

Chapter 4 studies real estate corruption and serves three objectives: 1) gives a close look at how corruption works in reality; 2) examines how corruption relates with officials’ promotion likelihood; 3) shows the validity of using excessive real estate investment (REI) as the indicator of regional corruption in Chapter 5.

Chapter 5 tests the proposed hypotheses and some competing ones quantitatively. Two random effects regressions are conducted. The first regression is used to generate the indicator of regional corruption, by which I produce maps illustrating the distribution and changing patterns of corruption across regions over time. I then carry out random effects OLS and GLS regressions to test the major hypotheses. Results support the effects of officials’ promotion likelihood on corruption. However, market competition and the average education level of a society do not decrease corruption in China as what is demonstrated in cross-national studies.

Another case study is provided in Chapter 6. It applies the findings from previous chapters and examines how and why Buying-and-Selling-Offices (BSO) has reemerged since 1990s from the
perspective of demand and supply. Finally, Chapter 7 summarizes main findings and provides several general conclusions about corruption and anticorruption in China.
Chapter 2 Anticorruption:

Party Control and the “Multi-Filter” Working Procedure

While domestic and international press criticizes the serious corruption in China and scholars search for its causes, a general sentiment is that China’s anticorruption enforcement is inadequate. Some regard that the weak monitoring system has actually created incentives for official corruption; others argue that China’s anticorruption is “half-hearted”, or indeed protects corrupt officials from criminal punishment. At the same time, scholars, such as Manion, have stated that anticorruption in China is not merely strategic. Compared with many other gravely corrupt countries, the Chinese effort is genuine and the anticorruption reform is the endeavor of a comparatively strong state with greater capacity. However, it is undeniable that the inclinations toward anticorruption reform have not trumped top Chinese leaders’ attachments to power (Manion 2004: 3).

This chapter, to complement the theoretical explanations framed in next chapter, attempts to introduce the supervisory environment around public officials. For a long time, the anticorruption approach in China combined exhortation or moral education with periodic enforcement campaigns. Although they proved to be successful for reining in corrupt officials in short term, China’s leaders gradually conceded that moral exhortation and campaigns can only heal the symptoms but not cure the causes of corruption. As Wedeman (2005) points out, the function of campaigns is not to eliminate corruption but rather to control it. Campaigns are likely

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to deter low-level corruption, but not high-level, high stakes corruption, and may indeed encourage inflation of the size of bribes.\textsuperscript{38} Since 1995, the government emphasis has switched to institutional methods; while ad hoc mass campaigns continue (Lu 2000: 223). Specialized agencies, like the Central Discipline Inspection Committee (CDIC), the Supervision Ministry, and the Procuratorates, were revamped to investigate and punish official venality. As existing studies have discussed their history, evolution, and major functions, this chapter will only briefly review above information and then focus on the relationship between the three anticorruption organizations, their relationship with local party committees, and their working procedures.\textsuperscript{39}

Throughout, I will discuss both the improvements of and the major problems facing the anticorruption systems today, which could be summarized as follows.

In the past, some improvements have been made to strengthen the anticorruption system, such as refinements of differentiation and cooperation between the anticorruption agencies and various government departments; more channels are open to the public to encourage revelation

\textsuperscript{38} Several scholars have studied anticorruption campaigns in China from different perspectives. For instance, see Li Lianjiang, “Support for Anti-Corruption Campaigns in Rural China”, \textit{Journal of Contemporary China}, (2001), Vol 10, No.29, pp.573-586, p.584. See also Kevin O’Brien and Lianjiang Li, “Campaign Nostalgia in the Chinese Countryside”, \textit{Asian Survey} 39 (3), (May-June 1999), pp. 375-393. They find that many villagers have Mao-Style campaign nostalgia and support political campaigns like the “Four Cleanups” in the Chinese country side to fight corruption. It shows that the peasants have profound frustration with widespread corruption and cadre misconduct and they are lack of confidence in existing ways to handle these problems. However, Li states that the stronger the popular demand, the less likely that such campaigns will be launched by the government, because the danger of losing control will loom large. See also Manin (2004), \textit{Corruption by Design}. She devotes a whole chapter (Chapter 5) to anticorruption campaigns in China. She compares the differences between contemporary campaigns and Mao-style campaigns, defines and identifies anticorruption campaigns, shows how campaigns worked and discusses their limited effects on corruption control. See also Andrew Wedeman “Anticorruption Campaigns and the Intensification of Corruption in China”, \textit{Journal of Contemporary China}, Vol. 14, No.42, (2005 February), pp.93-116. In this article, besides the effects of anticorruption, the author discusses the reasons to launch mass anticorruption campaigns. Basically, utilization of campaigns is to remedy the problems left by or to reinforce regular enforcement. A recent article on anticorruption is written by Elizabeth A. Quade, “The Logic of Anticorruption Enforcement Campaigns in Contemporary China”, Journal of Contemporary China, 16(50), (February 2007), pp.65-77. From the timing of anticorruption campaigns, she illustrates that the campaigns have been used by the central government primarily to combat economic overheating and not corruption itself.

of corruption; and more emphasis is given to vocational skills of the anticorruption agents during recruitment. Anticorruption is also armed by more legal provisions and party regulations. For example, 1997 alone saw promulgation of six new national anticorruption laws and disciplinary regulations.\textsuperscript{40}

However, the institutional methods have been obstructed from fully curbing corruption by the following difficulties. Physically, the supervisory bodies only have limited work forces and have to deal with a large amount of workload; they also meet the hardship to collect concrete evidence of corruption due to the secrecy nature of the crimes. Structurally, the “multi-filter” working procedure of the anticorruption system leads to low monitoring and punishment rates of corruption. Politically and most importantly, the control of the party committees over the anticorruption agencies has made law enforcement conditional. If a person has protection, his/her probability to get harsh punishment is very small. On the contrary, if he/she is in a rival faction, he/she could be punished seriously. Party control also results in supervision absence upon major government leaders, especially the party secretaries. Besides, impediment of anticorruption from some local governments largely disturbs anticorruption.

Therefore, with the central government’s sincerity of anticorruption and various available approaches, as well as the institutional improvement, current anticorruption system is fairly able to control corruption in short term and up to some level. It, to some extent, has prevented corruption from falling into rampant. But the institutional loopholes in the system have also

\textsuperscript{40} Thomas P. Bernstein and Xiaobo Lu, \textit{Taxation without Representation} (Cambridge: Cambridge University Press, 2003)
provided many opportunities of corruption for officials.

**The Anticorruption Organizations in China**

The inspection, supervisory, and legal systems in China were broken into shatters during the Cultural Revolution launched in 1966. The anticorruption systems were revived after 1978 and gradually evolved into current forms. In theory, the discipline inspection system is in charge of investigation of party disciplinary violations; the supervisory system deals with administrative disciplines; and the procuratorate is part of the judicial branch of the government. In practice, instead of a clearly delineated boundary, the jurisdictions of the three systems are often overlapped. The CDIC can be deemed as the most powerful monitoring agency among the three systems, as it is the watchdog of the CCP and most top officials are CCP members. Administratively, the CDIC is led directly by the Central Committee of the CCP. Professionally, decisions and policies of anticorruption are often transmitted from the CDIC to local DICs and other monitoring systems. While investigating cases, the CDIC and the whole discipline inspection system enjoys more privileges than other systems.

**The Party Disciplinary Inspection System**

The CDIC, leading the whole party discipline inspection system nation wide, is the supreme inspection organization of party discipline at the center. Its history could be traced to the inception of the CCP. The party disciplinary inspection work started as early as 1927 with names changed for several times. The name of “disciplinary inspection committee” was first used in November 1949, when Zhu De, the vice Chairman of People’s Republic of China, was appointed
the secretary of CDIC. The inspection work was totally abolished in 1969 and not formally reinstated until August 1977 when a new party constitution was adopted. In 1978, the third plenum of the Eleventh Party Congress announced the establishment of the CDIC, and Chen Yun, a powerful veteran, its first secretary, Deng Yingchao and Hu Yaobang, the second and third secretary respectively. At that time, the CDIC had committee members of one hundred in total, including its legendary heroine Liu Liying.41

The CDIC is directly responsible to the central committee of the CCP. Members of CDIC are elected by the party congress every five years and the CDIC elects the members of its own standing committee, party secretary, and vice secretaries. All the leaders elected need to be reported to the Central Committee for approval.42 The size of CDIC is slowly increasing in recent years. For example, 127 members were elected into the CDIC by the latest 17th Party Congress in 2007. Under CDIC, there are local DICs set up at local administrative levels down to counties and townships. They are under dual leadership, principally responsible to their local party committees and also accountable to the DIC one level up.

The jurisdictions of the DICs are more broadly defined than other monitoring systems. According to the lately revised Constitution of the CCP, Article 44, the DICs at every level have

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41 Chen Yun, was in the core leadership led by Mao Zedong and elected the vice chairman of the Central Committee in 1978. Deng Yingchao, at that time, was a member of the Politburo, and the vice chair of the standing committee of the People’s Congress. Hu Yaobang, at that time, was a member of the Politburo, before the head of Central Department of Organization. By Zhang Shu, “Chen Yun Lijian Hu Yaobang Wang Heshou, Zhongjiwei Huifu Chengli Qianhou” [Chen Yun Strongly Recommended Hu Yaobang and Wang Heshou, Around the Time that CDIC Was Reestablished], Zongheng [Vertical and Horizontal], (December 2005), source: http://www.tianshui.com.cn/news/whx_news/2006032717304514814_4.htm, March 27th, 2006, accessed April 13th, 2008

42 The Propaganda and Education Office of the CDIC and the Ministry of Supervision, the Simple Course of the Discipline Inspection and Supervision Organization and Construction (jijian jiancha zuzhi jianshe jianming jiaocheng) (Chinese Fangzhang Publish, Beijing, 2002), p. 14
the mission of monitoring the party members to uphold the party constitution and party regulations; to ensure the implementation of the policies and decisions of the party and the party line; and to assist the respective party committees to strengthen the party style (*dangfeng*) and organize and coordinate the anticorruption work.\(^{43}\) The party constitution adopted in 1977, 1982, and 1992 all assigned the same broad tasks to discipline inspection committees (Manion 2004). Therefore, the DICs are responsible for overseeing and protecting the public image of the party in general.

When the CDIC was originally revived, on one hand, it gave a lot of attention to examination of appeals and mistaken political verdicts from the Cultural Revolution and the anti-rightist movement in 1950s. On the other hand, it tried to rectify the party style by re-building party norms and regulations. The famous “Guiding Principles for Inner-Party Political Life” (*Dangnei Shenghuo Ruogan Zunze*) was made and revised by the CDIC between 1979 and 1980. The principles include upholding collective leadership and against autocratic manner, maintaining the democratic-centralism of the party and against factionalism, and so on. As Young (1984) notes, although criticism of some practices and individual behaviors in the “Guiding Principles” are directly linked to Cultural Revolution and Mao’s cult of personality, it also refers to more general problems of cadres serving their subordination to the party organization.\(^{44}\)

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44 Graham Young, “Control and Style: Discipline Inspection Commissions since the 11th Congress”, *the China Quarterly*, No. 97,
To strengthen the party style, the CDIC also prohibits luxurious “life style” (shenghuo zuofeng) of the party cadres. For example, a regulation pronounced in a joint document of the Central Committee and the State Council delivered detailed requirements on higher officials’ everyday life, such as their usage of car, furniture, and other supplements. The DICs sometimes could also intervene to stop the unhealthy “work style” (gongzuo zuofeng), for instance, various fees collection in rural areas (“san luan”) and the irrationally high prices of medicines in many hospitals. In addition, DICs are in charge of educating cadres, punishing perpetrators, and giving suggestion of punishment to other systems.

Problems of corruption and bribery have been given greater emphasis by the CDIC since 1981, but they were usually referred to as “unhealthy style” (buzheng zhifeng) by then. It is in January 1982 that Chen Yun expressed his strong will to strike hard on economic crimes. He was extremely angry after learning that some officials in Guangdong province had participated in smuggling, insisting on severe punishment of the criminals and even executing a few felons. In April 1982, “a joint decision of the Central Committee and State Council asserted that the struggle against economic crime is one of the ‘most realistic and effective measures’ for rectifying party style and nominated DICs as the party’s working bodies in leading this struggle (Young 1984: 35).” Since then, many forms of privilege-seeking have been classified as

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corruption, such as cadres’ use of state or collective funds for extravagant entertainment and presentation of gifts. Other individual and collective corruption behaviors that the DICs deal with include petty corruption, fraud, embezzlement, theft, smuggling, bribe taking, illegally acquiring foreign exchange, and waste and squandering of public funds, etc (Wedeman 2004: 906, Young 1984: 35-36).

**The Administrative Supervisory System**

The Ministry of Supervision was set up by the State Council in 1987. Before that, the People’s Supervisory Committee was established in October 1949 and repealed in 1959, and not considered to recover until 1986. The first minister of the new Supervisory Ministry was Wei Jianxing, by that time the head of the Central Department of Organization. Following the establishment of the Ministry of Supervision local supervisory bureaus were set up by provincial governments during 1988, with offices extending down to the county level. Meanwhile, the central ministry established “specialized bureaus responsible for supervisory 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 (Wedeman 2004: 900).”

According to the constitution and the Administrative Supervision Law, the Ministry of Supervision has the right to inspect and investigate offences of administrative disciplines, and the right to recommend and to impose administrative sanctions. It supervises the public officials of the State Council and its subordinate ministries, government departments, and state organs, as
well as the government leaders of provinces, autonomous regions, and Centrally-Administered Municipalities (CAMs).  

Wedeman (2004) characterizes that the Ministry of Supervision is responsible of maintaining political, economic, and administrative discipline. The content of these disciplines actually have a lot of convergence with that of the party line and party discipline that the DICs attempt to ensure. But the administrative supervisory system targets the government officials, and the disciplinary inspection system aims at party members. In particular, political offences include behaviors like insubordination, spreading lies and falsehoods, acting in an aristocratic and monopolistic manner, revealing state or party secrets, and organizing or participating illegal organizations and strikes, etc. Common conception of corruption is mainly included in economic offences, such as wasting public resources, and causing losses, graft, bribery, theft, smuggling, fraud, blackmailing, holding or trading in foreign exchange, and seeking private gain while visiting foreign countries, etc. Finally administrative offences include bureaucratism, errors in policy making, dereliction of duty, and negligence, and so on.

Besides, personal life style, morality, and professional ethics of public officials are also under administrative supervision, for example, participation in profit-making business, co-holding positions in companies, not taking care of parents or children, maltreating family members, keeping mistresses, violating social morality, gambling, and drug abuse, etc. It reflects the state

48 See Andrew Wedeman, “The Intensification of Corruption in China”, China Quarterly 2004, p.7-8. In this article he lists very clearly various offences that are counted as violation by the three systems.
concerns of the morality degeneracy of government officials.

The Procuratoates

The Chinese procuracy was first established in 1951, but then allowed to cease functioning during the Cultural Revolution. It was reestablished in 1978 with the Supreme People’s Procuratorate (SPP) at the top of the hierarchy of procuratorates extending to county level governments. Formally, the SPP is accountable to the National People’s Congress (NPC), which elects the Supreme Chief Prosecutor (SCP). And the standing committee of NPC appoints deputy chief procurator and ordinary procurators nominated by the SCP. Lower level procuratorates, similar as the DICs, are under dual leadership, formally accountable to the local people’s congress and the procuratorate one level up (Manion 2004: 121).

As part of the judicial branch of government, the procuracy serves both investigatory and prosecution functions. In the case of ordinary criminal activity, it works in conjunction with the public security system, which performs basic police and investigatory functions while the procuratorate acts as the public prosecutor. Since the early 1980s, anticorruption has been the focus of the procuratorates, which had categorized criminal corruption into economic crimes by 1996. Economic crimes include bribery, embezzlement of public assets, misuse of public funds, possession of unexplained assets, disguising savings abroad, privately distributing state assets, and tax evasion, etc (Manion 2004: 122). In these cases, the procurate is responsible for both investigation and prosecution. It conducts an initial investigation to determine if the available evidence is worth formal investigation. If it is, a case will be formally “accepted” (shou’an).
After a complete investigation, if the procurator believes that a crime has been committed, the case is “filed” (li’an) with the People’s Court. If the court “accepts” the case for trial, the procurator serves as prosecutor. Should the procurator decide a non-criminal violation has occurred, the accused may be “exempt” from criminal prosecution (mianyu qisu), and administrative sanctions or party disciplinary punishment will be imposed instead. The procurator may also dismiss the case altogether, if he finds there is insufficient evidence of wrongdoing (Wedeman 2004: 910-911).

To fight against the rising corruption in the 1980s, Guangdong province took the lead and set up a specialized agency—the Bureau of Anticorruption and Bribery (BACB, fantanwu huilu ju)—inside its provincial procuratorate in 1989. It is said that this innovation was directly supported by the SPP and Deng Xiaoping from the Center. A lot of provinces and cities copied the model of Guangdong province and set up BACBs to specialize in anticorruption tasks. Manion (2004) estimates that since their formation in 1989, the BACBs have counted for at least three-fourths of all cases filed for investigation by government procurators. In 1995, the status of the anticorruption bureau under SPP was upgraded to deputy ministerial level and was renamed the General Bureau of Anticorruption and Bribery (GBACB, fantanwu huilu zongju) (Manion 2004: 122).

Since 1997, corruption has been categorized into “offences of job abuse” (zhiwu fanzui) by the SPP. In this broader category, corruption is listed together with official crimes like dereliction of duty and infringement of human rights of citizens. The changing of terminology probably
reflects further differentiation and specialization of government institutions, as well as the willingness to increase “rule by law” of the top Chinese leaders. With the conception changes, the SPP set up a separate General Bureau of Prosecution of Dereliction of Duty and Infringement of Civil Rights (duzhi qinquan jiancha ting). Many provinces have also set up corresponding bureaus under their procuratorates.

**Relationship among the Three Organizations**

In actual practice, two of the above three agencies have played most active roles in anticorruption—the CDIC and the BACB in the procuratorate, with the CDIC in lead. The discipline inspection and administrative supervision are basically the same system in reality. Because most state officials are also party members, the jurisdiction of the DICs and supervisory bureaus could not be neatly segregated. Most cases were jointly investigated by the two agencies, as it made little sense for both to conduct independent investigations repeatedly. “In some cases, particularly politically sensitive cases involving key party members, the DICs claimed primary jurisdiction and sought to prevent the supervisory bureaus from becoming involved until they deemed it appropriate (Wedeman 2004: 900).”

After nearly six years of parallel operation, the supervisory bureaus and DICs were effectively merged by the party center and the State Council in October 1992. In February 1993, the merger of the two was clarified by the Center by permitting the two systems to use “one work-body with two identities” (yitao banzi, liangkuai paizi). That is, each of the two systems retains a separate organizational identity in name, but uses the same cadre corps in practice. The CDIC agents tend
to conclude that there are no real differences between the two agencies for most of the time after merging. Major inspection rights are essentially employed by the CDIC, which performs both the party disciplinary inspection and government administrative supervision, and reports to the party center. Many punishment decisions are shared by the two organizations. It means a decision made by the DIC is also the decision of the supervisory body by changing the title of the red tape, although in theory, the supervisory system preserved its control over the handing down of administrative sanctions and the DICs handled Party sanctions.\textsuperscript{49} The two systems might stress slightly differently in aspects of anticorruption. As Wedeman points out, “the annual reports on supervisory activity found in provincial yearbooks indicates, that for all intents and purposes the DICs assumed responsibility for conducting disciplinary actions against individuals while the supervisory system assumed responsibility for dealing with institutional malfeasance (Wedeman 2004: 901).” Nevertheless, it is no doubt that merger makes DICs the major functioning agencies between the party disciplinary inspection and administrative supervisory systems. In this way, the final leadership of the two bodies lies in the CDIC.

A question one might ask is that if CDIC as well as the whole DIC system is so powerful, what is the need to preserve the identity of administrative supervisory system? The main reason should be the distribution of labor. Although the DICs have conducted most of tasks after merger, for non-CCP officials and civil servants, they do not have the right to supervise and punish them formally. In this case, the identity of the Ministry of Supervision needs to be called in.

\textsuperscript{49} Interview notes, IN08/2006/BJ
In comparison with the supervisory bureaus, the procuratorates perhaps provide larger complement to the jurisdictions of the DICs. They are not only involved in investigations but also necessary in completing legal prosecution of criminal corruption. However, in most cases, the procuratorates are secondary to the DICs, which could be partially reflected through the different weights the DICs and the procuratorates occupy in government finance. The DIC system is financed by the fiscal budgets completely, whereas the procuratorates are relatively more dependent on themselves. While provincial procuratorates have abundant financial support from the provincial governments, fewer resources are allotted to municipal level procuratorates. In some provinces, municipal level procuratorates are allowed to maintain about 50% to 80% of the money checked out during corruption investigations for future working capital. This policy on one hand lessens the fiscal burden of the government, on the other hand gives more incentives to the local procurators to fight against corruption.\(^5\) But examples have shown that this measure could create new rent-seeking opportunities for law enforcers in some places. Some departments of public security set up offices in the name of attacking economic crimes, and what they did in fact was to arrest people and blackmail for bailouts. Since the definition of economic crime is not clearly defined, they usually targeted rich businessmen from Taiwan or Hong Kong for prostitute issues. For instance, the department of public security in Tianjin municipality had such an office in the 1980s headed by Li Baojin, who later became the chief procurator of the local procuratorate. Ironically, Li got to know a lot of businessmen in this way and helped them get

\(^5\) Interview notes, IN07/07/2006/GD
government permits of real estate development utilizing his power. He was finally arrested for corruption in 2006.\textsuperscript{51}

More importantly, the CDIC leads the anticorruption work of the BACB in the procuratorates through local DICs in two ways.\textsuperscript{52} First, the BACB must report to local DIC frequently for decisions of investigation and punishment of specific officials. The BACB has to follow the decisions made by the DIC, and usually moves only after getting approval from the DIC. This arrangement apparently is to maintain the privilege of the DICs, essentially the party, in decision-making of anticorruption. Second, the CDIC and DICs are the main source of corruption cases for the BACB, which, though, has its own center and hotlines to accept reports of corruption cases. A majority of the cases that the BACB deals with are handed over from the CDIC or local DICs. At provincial level, very few cases are initiated by BACBs themselves. This is, first of all, because the DICs enjoy an advantage in the investigatory process, as they have broader jurisdiction and closer relationship with government supervisory departments. It is probably also because the DIC system has a wider organizational network than that of the procuratorates. The discipline inspectors are as pervasive as the party itself, in that they exist in rural villages, urban neighborhoods, and within workplaces, places wherever exist party committees or party groups. However, the procuratorates only extend to the county level and some townships with limited numbers (Manion 2004: 132). Therefore, the DICs have more sources to collect reports and to acquire cases.

\textsuperscript{51} Interview notes, IN07/09/2006/TJ
\textsuperscript{52} Interview notes, IN07/07/2006/GD
The case transaction between DICs and BACBs is usually initiated by the former when the DICs feel the need to refer a case to the legal procedures.\textsuperscript{53} As party disciplinary inspectors, the DIC agents do not have to follow legal procedures during investigation. They could use some special methods outside of legal means to get some preliminary evidences, such as sitting in government meetings, auditing government expenditures, and talking with officials directly, and so on. The notes and evidences collected by them might not meet the legal requirements strictly for indictment of criminal corruption. In these circumstances, the DICs will hand over cases to the procuratorates, and then the BACBs will do further investigation and interrogation very carefully based on the previous work of the DICs. Very often, the BACBs could discover higher stakes of corruption than the amount found out by the DICs. To some degree, the BACB is the assistant of the DICs to fully complete a case in legal standards.\textsuperscript{54}

In theory, the anticorruption institutions described above are not meritless. Manion (2004: 131) comments,

“\textquoteleft\textquoteleft The elaboration of high standards of conduct for party members, a group which includes most officials, and the existence of a separate party agency to monitor and punish misconduct is a promising means to control official corruption. The broader net that defines the jurisdiction of discipline inspection committees gives these party agencies authority to investigate and punish misconduct that is not so serious as to constitute crime.\textquoteright\textquoteright\n
And the close cooperation between the discipline inspection system and the procuratorates allows severer legal penalties to be imposed on more serious crimes. Hence, several tools to

\textsuperscript{53} Former Hunan DIC secretary, Yang Minzhi, mentioned that sometimes, the BACB/procuratorates might discover a corruption case first. With difficulties to collect further evidences, they would call in the DICs to help, since the latter is able to use some methods outside of legal means to carry out investigations. See official interviews to him here online, http://cpc.people.com.cn/GB/64093/67507/4990033.html

\textsuperscript{54} Interview notes, IN07/07/2006/GD
attack corruption are there, but they are not always used because of political reasons. In reality, the anticorruption systems are controlled by local party generalists and party committees. Their influence exists in every stage of the investigation procedure. If a corruption case got the attention from the party committee, it could be handled swiftly; if it was not put in such a priority, it could be ignored or delayed. In the latter case, the working procedure from case acquirement to punishment are like “multi-filters” that the Party can intervene in any step and leak a case out of the net of supervision and serious punishment. Next two sections will explain these problems in details from two angles, the role of local party committees in anticorruption work and the working procedures of the DICs and the procuratorates.

**Role of the Party Committees in Anticorruption Work**

The anticorruption system in China is fundamentally controlled by the Party. The approval of the party committees is indispensable in almost every step of the whole investigation procedure. The support or impediment of the party committees strongly determines the incidence that propels processing a case to the end. In particular, party control is realized in four aspects. First, the party center could initiate nationwide anticorruption campaigns, which raises the social and local governments’ sentiment of anticorruption.

Secondly, local party committees have considerable latitude in setting the priorities and determining the resources devoted to investigation, prosecution, and punishment in corruption cases (Manion 2004: 124). As for this point, Cheng (2002) notes that not only local governments control the financial resources of those agencies, but also various government organizations can
exert some pressure over them. He quotes a comment made by a famous scholar that vividly summarizes the embarrassing situations of local courts.

“They dare not offend the Electricity Bureau, because they need to use electricity; they dare not offend the Urban Construction Bureau, because they sometimes need to build office buildings; they dare not challenge the Education Bureau, because the kids of their employees need to attend schools; they dare not offend the Bureau of Labor Affairs, because the children of their employees need to find jobs; they dare not offend the police, since the spouses of some of their employees need to obtain the status of urban residents before they can move to cities from the countryside...Do not even mention those cases involving local business interests. If mayors or party secretaries call directors of the courts telling them how the cases should be sentenced, there is nothing the latter can do but to obey the orders (Cited in Cheng 2002: 54).”

Thirdly, party committees use personnel tools to exercise leadership over the anticorruption system. Finally, party committees are directly involved in decision-making of investigation, prosecution, and punishment of corrupt officials. Thus party committees at every level have greatly influenced the quality of the whole anticorruption system. Following discussion will focus on the last two aspects, since greater influence from the party committees are employed through the formal institutions

**Party Control over Anticorruption**

The anticorruption agencies are led directly by two internal committees of the respective party committee—the party discipline inspection committee, or the DIC, and the Political-Legal Committee, or the PLC. Both the DIC first secretary and the PLC secretary are standing members of the party committee at the same level led by the party secretary. The PLC is responsible for coordinating and directing work related to the public security, prosecution, and
law enforcement.55 At the very top, the Political-Legal Commission consists of the chief procurator of the SPP, the president of the Supreme People’s Court (SPC), the minister of the public security, the minister of state security, the State Council relevant office leader, and the head of the general political department of the People’s Liberation Army (PLA). Local political-legal committees are constructed in a similar way. The PLC assists the party committee maintain overall social order by coordinating actions among various agencies. For example, the committee can conduct a pretrial review in cases of political sensitivity and of most important crimes (He and Waltz 1995: 374).

The dominance of the party committee is further extended along the organization hierarchy basically by two channels, the party committees or groups in each work units, and the nomenclatura system. In the procuratorates, the party groups (dangzu) often meets jointly with the procuratorial committee to make decisions on whether or not to prosecute cases involving big sums or senior officials. But indeed, the member composition of the party group and the procuratorial committee largely overlaps (Manion 2004: 125). In the DICs, investigation and verdicts of a corrupt official have to be approved by the internal party committees in the first place.

The nomenclatura system is the last stronghold of the CCP to sustain its control. By this system, “party committees, with information collected and kept on file by their organizational departments, vet and approve the appointments of all officials holding positions of any

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55 The full name of Political-legal committee is “CCP Party Committee Political-Legal Committee”
consequence”. It makes the party committees the effective “bosses” of all party and government officials at one level down. For procuratorial committee members, the party committee one level up vets the prospective chief procurator, deputy procurators, and ordinary procurators through its organizational department and approves them as candidates first. And then the local people’s congress nominally elects the chief procurators based on the pre-approved name list. The party committee at the same level vets and approves procurators outside the procuratorial committee. In the DIC system, up to very recent, the DIC standing committee, secretaries, and deputy secretaries were nominally elected by the DICs at its plenary session based on the prior candidate list, which was developed by the local party committee and submitted for approval from the party committee one level above (Manion 2004: 125-126).

**Dilemma of the Anticorruption Agencies**

While the anticorruption agencies are placed under close control of the party committees in terms of resources, organizations, decision-making, and personnel, they are also put in an awkward position, since they are supposed to supervise the party committees in lead. The problem is somewhat relieved when monitoring only flows top down. But the dilemma swells when the agencies are required to supervise party committees and governments at the same level, not to mention supervision from below. For instance, Article 44 of the party constitution states,

> “If a DIC discovers any member of a party committee at the same level violating the disciplines, the DIC may conduct a preliminary verification. If the case needs be filed and investigated formally, the DIC should report to the party committee at the same level for approval; if the case involves a standing member of the party committee, the DIC should report to the party committee first and then to the higher DIC for approval.”

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56 Manion (2004), *Corruption by Design*, p.125 Next chapter will discuss with more details about this system.
This procedure makes it extremely hard for the DICs to monitor members of party committees at the same level, and nearly impossible to bust the standing members, especially the party secretaries.

First of all, the major leaders of the DICs are *de facto* nominated by the standing committees of the party committees according to the nomenklatura system. And the party secretary, as the “No. 1” boss locally, has the final say on the nominee lists. Owing the party secretary and the standing members, the “elected” heads of the DICs are not willing to challenge them openly most of the time. Without checks, many party secretaries are like local dictators and become seriously corrupt having no scruple. For instance, it is quoted by a Chinese journal that a county party secretary flaunted his supreme authority locally to members of the local PLC, asking them, “If I hadn’t put your name up, could you serve?” (Manion 2004: 125). Cheng cites the words of a city secretary in Shandong province, “When an official reaches my level, nobody can supervise him/her. Even in the standing committee, no one dared to challenge my decisions (Cheng 2002: 47).”

Secondly, many corruption networks include, or actually are formed by, powerful leaders, such as local committee members and standing members, and some even extend upward, so as to grab more profits and stay in protection. It is especially the situation where party secretaries are corrupt themselves and in autocratic manner. For example, a number of local officials in a county of Guangxi province were apparently involved in corruption, as they all lived in luxurious villas that they could not afford by salaries. But the county party secretary told the local DIC explicitly
that they could not investigate any corruption practices of officials at and above the level of vice bureau director without his approval (Cited in Cheng 2002: 49). Such blatant protection of corruption resulted in a dysfunction of local anticorruption work. The public lost incentive to reveal corruption to local DIC, because they knew that the DIC would not launch any investigation. The DIC would not submit proposal of investigation to the party committee, because they knew it was impossible to get approved. In these circumstances, the only possibility to break the vicious cycle is to report corruption above and waited for higher level intervention. But as explained in the following section, higher interference is often hard to invite. The “back and forth” working procedure might throw a case back to local party committee first, which would highly likely bring retaliation on reporters.

To solve the dilemma of the anticorruption agencies, an arrangement of “dual leadership” was introduced to the DIC and procuratorates systems. Before that, a local DIC was a fully subordinate agency of local party committee. In 1982, the Center introduced dual leadership, since then local DICs have been led by both the DIC one level up and the local party committees (see Figure 2.1). When a local DIC disagrees on decisions of its leading party committee, the DIC is authorized to request the DIC one level higher to reexamine the case and to conduct a preliminary investigation on such cases (Article 43, Party Constitution). For instance, a municipal DIC can report to the provincial DIC, if it wants to investigate a municipal standing committee member.
Though with improvement, the vertical integration of the DIC system for a long time has not completely changed the weakness of the local DICs. Local DIC secretary was often cross-held by a vice party secretary, who need to report to the party secretary first. And the first secretary of a provincial DIC was only a member of the provincial party committee, who could speak out and vote on meetings but not make final decisions. The final decision of investigation has to be approved by the provincial party secretary. Most of the time, the provincial party committee would accept the suggestion of the provincial DIC. But the suggestion may be rebutted if the party committee does not have a unanimous agreement. The reasons causing the disagreement are complex. Some corruption cases have been there for a long time and not necessarily the responsibility of the current leaders. However, investigation could influence the leaders negatively. For example, they might worry large-scale investigation of corruption could devastate
local economic development, so decisions are made cautiously. In other cases, a provincial committee member himself/herself or his/her followers, offspring, or relatives might be involved in the case. Naturally, the leader would want to dismiss the case. If the provincial party secretary chooses to suspend investigation or protect the municipal leader, the municipal DIC has no other options but to follow their superiors’ decisions.\(^\text{57}\)

Being aware of this problem, the Center further strengthened the vertical leadership of the DIC recently by appointing provincial DIC first secretaries directly. In 2006, new secretaries of DICs in provinces and CAMs such as Shanghai, Beijing, Chongqing, Tianjin, Guangdong, Shanxi, Henan, Fujian, and Anhui were all rotated by the Center from outside. It breaks the long time practice that provincial DIC secretaries were nominated by the provincial party committees from their subordinates within the province. Among the new DIC secretaries, those rotated to Henan, Shanxi, Chongqing, Shanghai, and Beijing were former cadres of the CDIC. Besides, the party center made the new secretaries standing members of the provincial party committees at the same time.\(^\text{58}\) This new practice on one hand shows the willingness of the Center to fight corruption, especially to strengthen the supervision on those “local party bosses”; on the other hand, actually reflects the weakness of local DICs to monitor party committees at the same level. The party center and the CDIC have been increasingly engaged in work that should be handled

\(^{57}\) Interview notes IN08/10/2006/BJ

by local inspection agencies. It underscores the organizational challenges facing China’s
discipline and inspection system (Yang 2004: 225).

Finally, it is worth pointing out though local party committees sometimes set obstacles for
the anticorruption agencies using their control power, they are not always uncooperative and not
universally passive to anticorruption. At higher levels, such as provincial level, the party
committees are less monopolized by the party secretary himself in most places. The new DIC
secretaries “parachuted” from the center should also generate more positive effects in the
standing committee on anticorruption issues. Zhu and Zhang (2008) also find that the central
management of local officials is effective in motivating provincial party committees to follow its
anticorruption initiatives to some extent. In provinces where provincial leadership’s (especially,
the party secretaries’) career incentives are more closely aligned with the Center, more
anticorruption efforts seem to be spent. In particular, if the provincial leaders are more integrated
into the party center, such as sitting in the Politburo, the local government will be more actively
fighting corruption than those provinces whose leaders are less integrated into the Center. And if
the party secretary is a political outsider who was rotated from other provinces and stays in the
current position for fewer than five years, anticorruption efforts there tend to be stronger than
that of provinces led by political insiders who were promoted from within and had spent most
time serving the same province. One of the reasons behind this should be that “central
integration” and “frequent rotation” are both signs of further promotion of a cadre to central
positions, which is seen in the long time CCP cadre management practice. Officials of this kind
might figure their long term career prospects lie with the Center rather than with the provinces they are assigned to govern (Huang 1996: 197). They are therefore less embedded in local interests and tend to maximize central interests. More discussion on the effects of official’s promotion incentive is left for next chapter.

**Working Procedures of the CDIC and the Procuratorates**

This section examines the anticorruption system from an organizational angle. It looks into corruption control through following the step of the working procedure of the CDIC and the procuratorates based on first-hand interviews, data analysis, and existing research. From case reporting to legal adjudication of a corrupt official, a case could be dropped off because of many political and physical barriers. The working procedures, to some extent, become “multi-filters” of corruption cases especially for those under protections.

To realize the broad jurisdiction, the CDIC has several different departments within and the internal organizational structure has changed for many times. After the merger of the DIC and supervisory systems, the DICs have been “standardized to be simple and efficient” organizations. A DIC usually includes offices of letters and visits (xinfang jubao shi)/report center of the supervisory bureau, case investigation (anjian jiancha shi), adjudication (anjian shenli shi), regulation building (fagui jianshe shi), regulation implementation and supervision (zhifa jiancha shi), promulgation and education (xuanchuan jiaoyu), and information exchange (xinxi jiaoliu), etc. Each office has its own functions, which cover from preliminary information

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and case collection and acquisition, to investigation, to routine regulation-making and enforcement, as well as preventive education. The BACB of the procuratorates has less complicated organizations. They mainly contain a couple of investigation offices, since their major task is to carry out investigation.

The CDIC seriously suffers from shortage of human resources. Though it is very hard to find accurate data, by all estimates, the CDIC work team should compose of over 1,000, and definitely no more than 2,000 staff in house. Some source reveals that the formal personnel of the CDIC only consist of about 580 people with 400 of whom are agents specializing in investigation. For a long time, the CDIC has to borrow about 500 people from other agencies. According to the regular working procedures, it needs at least 1,500 more people. The CDIC is indeed a small team, given that the central supervisory agency is in charge of overseeing all the CCP cadres nationwide, whose number has surpassed 73 million in 2007. The number of officials above bureau/county level, whom the CDIC/supervisory ministry inspects more often, was 288,000 in 1997. Just for the officials above vice province/ministry level, whom the CDIC/SPP keeps the closest watch, their population size is more than 20,000.

These 1,000 more agents are recruited from diversified backgrounds that could be close to or far from DIC tasks. Some of them are demobilized military officers, some are newly university graduates, ...
graduates, and some are transferred or borrowed from other work units, such as the department of public security. In terms of personnel composition, the CDIC shares a lot of similarities with the procuratorates and the court in China (He and Waltz 1995). If moral qualities and adherence to party principles were most emphasized during recruitment before as Young (1984) notes, professional knowledge has been laid on more stress today. Since many cadres are unfamiliar with discipline inspection work, the work units provide them with periodic ideological education and vocational training.

**Case Acquisition**

Public reports have been the major source of corruption reports, which formed eighty percent of the cases that the procuratorates have indicted. The office of letters and visits is the major channel of the CDIC opening to the public to acquire reports of corruption through mails and personal visits. Only recently in 2005 the CDIC/supervisory ministry and several provincial DICs/supervisory bureaus started reporting hotlines and established websites to accept online reports also. Again, accurate data of annual reports is never publicly announced by the government, but some news report reveals that there are about 160,000 reporting letters reaching the CDIC every year since 1998. Here, this data might be inflated given its source. Even if it

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63 Gui Daohui, “Fubai Leilei Que Bubu Gaosheng” [So Much Corruption But Frequent Promotion], August 14th, 2007, Jiancha Ribao [Prosecutorial Daily], reprinted on Shandong Renda Gongzuo [Shandong People’s Congress Work], No.9 2007, pp.56-57


65 Yue Shan (2003). This number is reported by Hong Kong magazine Dongxiang [Changing Trend], and reprinted by Dajiyuan [Epochtimes], both of which are saliently critical to the CCP. Information from them could be biased. However, Yu Jianrong, an expert on masses visiting to the Center (shangfang), estimates that in 2003, the centers of letters and visiting around the country received reports for 12.723 million, with 4.1% increase of that of last year. By this estimate, 160,000 reports to the CDIC is sensible.
was true, not all the reports are about corruption, and not all of them are credible. But no matter what, the workload of the office must be huge. It can be told merely from the long queue waiting in front of the gate of the office compound. Long time outside waiting without seats could deter many people from visiting. Nevertheless, a number of people keep paying their visits to the narrow Beijing street, where the office is located, from localities far away from Beijing. Some of the visitors that the author met were from Liaoning, Shaanxi, Shandong, and Henan province.

Reporting corruption cases could be sensitive politically, as several news reports have exposed that reporters were retaliated or threatened. Paying personal visit might be more dangerous than sending letters or phone reporting, so most reporters showed a great sense of vigilance. They kept silent while waiting for their turn to speak to the CDIC staff, which made talking to them very hard. If being asked, many of them would say, “I am just here waiting for my friends”, or “I came here for nothing”. After getting the trust of some visitors, I got to learn the reasons of some visiting. An old couple of peasants came because their land was taken away by local government for sale without getting compensated. Another couple was from a prefecture, the husband claiming that he was mistakenly sanctioned by his work unit years ago and lost his position since then until retirement. The other reporter was a wife, whose husband died in a fire several years ago, but the local department of public security did not find out who was the arsonist. Being asked why they did not report to their local government or local DIC, they gave the same answer,

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66 In fact, this office works about three and half days a week, not five days a week. Probably in order to avoid disturbance of other works inside the CDIC, this office is put in a completely different area far away from the main building of the CDIC. It is located in some narrow Beijing street, instead of the main avenues of the city as other major government ministries. And in front of the gate of the main building of the CDIC, there is a notice saying “this is not the place to report cases. Reporting cases in wrong places could result in being dismissed or even arrest.”
“Officials protect officials” (guanguan xianghu). It is an old Chinese saying, meaning officials would cover up for each other’s wrongdoings. The distrust of their local authorities partially explains why so many people have traveled a long way to directly report problems to the Center regardless of monetary and time cost. The distrust is also caused by the dependency of the DICs on local party committees, which is explained in previous section.

Although the CDIC has a broad jurisdiction, it does not necessarily accept all the cases reported by the public. The process of receiving personal visits is actually a rough and preliminary round of case selection for the CDIC. Many reporters are told that their problems should be reported to other government agencies, such as the National Bureau of Letters and Visits (NBLV, guojia xinfang ju) under the State Council, or the report center of other ministries or commissions. For the three cases mentioned above, the first one was told to go to NBLV, the third one was told to go to the report center of the Ministry of Public Security (gong’anbu), and only the second one was left with the CDIC. In fact, a quite large part of the work that the CDIC office conducts is to categorize the cases and distribute them to the “right” government agencies.

The question is why so many cases are reported to the “wrong” place? The first and also the simple answer is that the public are ignorant of or have misunderstanding of the jurisdiction of the CDIC. For example, some report is mainly about product qualities, which should go to the Administration of Industry and Commerce. However, as reviewed previously, the CDIC controls the “party style”, and intervenes in the “life style” and the “work style” of all party members, who form the majority of public officials. One CDIC agent once said, “We deal with all kinds of
problems (of the party members)” (shenme douguan). In this perspective, that the CDIC sends cases away is not because they are reported to the “wrong” place. Instead, it is just because of the detailed division of labor among government departments. Sending away cases should help solve specific problems and relieve the workload of the CDIC. The problem is many visitors are made roving back and forth between different government departments, and gradually lose their trust to the central authority. Some popular saying among visitors goes, “State Council is like hell, crazy dogs are outside, and corrupt officials are inside”, which contrasts significantly with the old public saying, “The Center is our benefactor”.

It is not hard to imagine that many people would and/or have to give up reporting their problems to the Center halfway.

Another possibility is that the public perception of government corruption is high, that they suspect official corruption exists behind and leads to many problems in surface. Thus, they choose to report to the CDIC first instead of other departments. If the public perception is true (and as shown from several real examples, it is often true), sending away the cases will let potential corruption slip through or delay investigation.

Finally, the public might intentionally choose to report to the CDIC because it is more powerful and relatively approachable than other government agencies. As explained before, at least in terms of corruption inspection, the CDIC is the most powerful agency among the three supervisory systems. The CDIC, as a party organ, is also more approachable to ordinary citizens.

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than many government departments. In comparison, making reports to the NBLV might be more difficult. The Center has set up a “responsibility system on local residents’ making visits to upper level governments” for party committees and party generalists at every administrative level. By this system, the party generalists have the responsibility to solve social issues locally and prevent excessive visits, especially collective visits, of local residents to provincial and central government. Large scale collective visits to upper level government are a signal of social unrest, deemed to be destructive to social stability, and a failure of local party committees. Therefore, many local governments try all means to stop “central/provincial visitors”; some even send police forces to catch the reporters back from the NBLV in order to keep a good reputation in front of the leaders. In this case, it is understandable that some reporters might choose to pay their visits to the CDIC first.

Therefore, although the number of reports reaching the CDIC annually is huge, the CDIC is unable to learn the details of every case. Neither all the voices of the visitors, nor all the letters are heard or read by the CDIC officers. The loophole is made up by some other information sources, to some extent. Besides the office of letters and visits, there are at least three other sources for the DICs to acquire corruption cases.

First, the central government could hand over cases and order the CDIC to investigate on specific cases or officials directly, for example the previously mentioned Guangdong smuggling case in the 1980s. It caught the attention of Chen Yun, who issued the order of investigation.

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directly to the CDIC. In Wang Huaizhong’s case in 2004, the Center also clearly instructed the CDIC to investigate. Yet, it is a little hard to identify whether the Center is the information source or just the origin to launch the investigation in these cases, because it is hard to believe that for these kinds of “big cases” the CDIC got no relevant reports previously. Secondly, as the CDIC distributes cases to other government departments, other agencies also transfer cases to the CDIC. For example, the NBLV is a large source of corruption cases for the CDIC. Finally, due to the secrecy of corruption, many cases are accidentally uncovered from other criminal cases and turned over to the DICs. For example, in smuggling cases, very often officials of the Custom House are involved or giving connivance. Sometimes, higher officials may participate, such as in the “Yuanhua smuggling case” (Wank 2004). Dealing with these cases could bring out a chain of corrupt officials. Burglary is another crime that could extract many corruption cases. During ordinary criminal investigation, the police might find out that the victim, as an official, turns out to be quite rich and possessing large amounts of cash or luxury properties, which arouses suspicion. The police could turn this case to the DIC for further inspection.69

The BACBs acquire cases of corruption in similar ways as those of the DICs. In addition to their own center of letters and visiting, they also get cases from CDIC and DICs, higher level procuratorates, and other government agencies.

Case Selection

In the past decade, the total number of letters and visits received by the party and government...
report centers nationwide has increased greatly (Yu 2005). For the CDIC, although it has distributed many cases to other central departments and local DICs, it is impossible to handle all the cases left. Hundreds of cases are stocked in house unsolved every year. Unofficial source discloses, that Wei Jianxing, the former CDIC secretary, said with a heavy heart in 2002, while transferring the post to the new secretary,

“There are more than 40 big corruption cases on provincial/ministry level work units in stock and not being investigated yet. There are more than 110 cases on provincial/ministry level officials, more than 180 cases on prefecture/bureau level work units, and more than 450 big corruption cases on prefecture/bureau level officials not dealt with yet.”

Being overloaded, the CDIC has to select and focus on some cases and putting aside others. The same source said, while processing informant letters, about 70% of the reports will be left for preliminary investigation, and 30% are ignored. This is, on one hand, because of the limited work forces; on the other hand, because many reports of official corruption are fundamentally unidentifiable or actually fabrication.

The general principle of case selection is the reliability of the evidence and the possibility of further investigation. In particular, three types of reports are given more emphases. First, if the reports are made by personal visits or by letters that are signed with real names, especially with a group of real names. Second, if a letter contains substantial evidences, the likelihood of getting serious attention is higher. Thirdly, attention is more likely to be aroused to cases and officials

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70 Yang Dali (2004) notes oppositely, that the number of informant letters and public petitions received by the anticorruption agencies (the discipline inspection commission, the procuratorate, and the Supervision Ministry and its local bureaus) has declined each year since 1999. See his book *Remaking the Chinese Leviathan*, p.254. He uses the source of We Jiangxin’s talk in 2003, and the interview of Zhao Dengji, deputy procurator general of the SPP by the CCTV in 2002.

71 Yue Shan, “Weijianxing Jiangtanfu Jingren Neiqing, Baiyu Shengbuji Da’an Jiya” [Wei Jianxing Talks about Inside Information of Corruption, More than Hundred Provincial/Ministry Level Big Cases Are Stocked], 2003
that have been complained or reported repeatedly.\footnote{Interview notes, IN07/01/2004/BI}

Signature of real names is appreciated, because many reports that the DICs and BACBs received are by anonymous letters. By a statistics of the CDIC in 1987, about 1/4 of the disclosure, reporting, and accusation letters arriving at the DICs were in anonymity. In some provinces and municipalities, this number reached 30%, and even above 50%. The CDIC also found that the higher level the officials were revealed the more likely the letters to be anonymous. According to the statistics of the CDIC between January and April in 1986, among the letters disclosing problems about bureau level (juji) officials in the party, government, and the army, 80.1% was anonymous; and if about provincial/ministerial level officials, 93% was anonymous.

For a long time, the quality and the intention of anonymous letters are debated and suspected. In 1986, the 13th issue of the *Fortnightly Review* (banyuetan)—an editorial magazine of the Xinhua News Agency—published a commentary article on anonymous letters. It argued that most of them were written for the ends of threat, deceit, and removing political enemies, so there is no need to look at them and all of them should be eliminated as waste paper. Some provincial party committees made an extreme decision that “no investigation will be conducted based on reports of anonymous letters”. The CDIC thus decided to standardize treatment of anonymous letters, transmitting its opinions to party committees at local levels and various government departments, and the military.

In this opinion, the CDIC used series data telling the party committees that anonymous letters
are quite valuable in fact.

“Several times of sample tests have shown that no matter letters with real names or in anonymity, 70% of them have reported problems completely true, or almost true, or basically true, or partially true. Among letters with real names, 24% of them have reported false information; among the anonymous letters, 25% are false reports. An extremely small percentage of all the letters pertain to fabrication, which exists among both letters with real names and anonymous letters. A large portion of several big and important cases under investigation right now got clues from anonymous letters. In Beijing, 45% of the cases are discovered in this way, and the percentage is much higher in several other provinces and municipalities. It shows anonymous letter is a channel that the party members and the masses reveal problems to upper level, and it has provided a lot of important information.”

By this opinion, the DICs cannot select cases solely based on whether real names are signed on informant letters, though the CDIC really wants to see more “real name reports” and has encouraged that in these years. For real name reports seem to be relatively more credible and make following investigation easier. In some DICs and BACBs, for instance, formal reply is required for all the reporting letters signed with real names so as to show the attention of the government.

In the *Ordinance of Internal-Party Supervision* (*zhongguo gongchandang dangnei jiandu tiaoli* <shixing>), enacted by the Central Committee in 2004, it is required that the final verdict of a case should be notified to the party member who reports the problems in the real name to learn his/her opinions on the decisions, if possible.

Yet, many people still prefer concealing their identities while tipping off information. To a large degree, it is caused by another principle of case selection of the CDIC—“one level down management of cadres”.

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73 The CDIC, “Dui Nimingxing Chuli de Yijian” [Opinions on Dealing with Anonymous Letters], March 30th. 1987, transmitted by the Office of the Central Committee, [http://www.jzjjjb.gov.cn/n435777/n465711/n465925/n466456.html](http://www.jzjjjb.gov.cn/n435777/n465711/n465925/n466456.html), accessed on April 17th, 2008. Statistics of the CDIC on anonymous letters is also from this source.

72 Not surprisingly, there are complaints that replies with real content are not got from the DICs or the CDIC.

According to the “one level down” principal, if the officials involved in a report are above ministerial or provincial level, the CDIC will deal with the case by itself. If the officials are at levels lower than that, the CDIC will usually hand down the case to the party committees of specific government administrations or local governments, letting them and the DIC branches conduct inspection. In theory, the CDIC will not intervene anymore, if no higher officials are found out being involved. However, many cases, once handed down, got “disappeared” or superficially investigated, because the party generalists tend to protect their subordinates. It is especially the case if a report is about the party secretaries themselves or one of the party committee members.

What makes the situation worse is that reporters sometimes could be retaliated. A former municipal party secretary of Xinxiang in Henan province, Zhu Youwen, instructed the local police to use their professional knowledge of criminal investigation to stop reporting letters and find out identities of reporters, and then persecuted them. While he was in power, more than 200 reporting letters were blocked.\(^\text{76}\) In another case, a reporter of Hunan province suffered 15 knife-wounds, because of revealing corruption of a member of Provincial People’s Political Consultative Conference (PPCC) to the procuratorate with real name. There are also examples that the reporters are fired by the work units, or even put into prison for several years.\(^\text{77}\) All of these malign retaliations have made the public hesitant to disclose what they know, and refuse to

\(^{76}\) Xiao Ri, “Ai Jubai Xin” [Sad for Reporting Letters], *Continuing Education and Personnel*, No.9, 2002.

sign real names if brave enough to send informant letters. Therefore, the “back and forth” style of processing reports of the CDIC lowers public incentives to reveal corruption, because the basic safety of reporters are threatened and intensive investigation by the higher DICs and CDIC is so hard to invite into a remote area.

**Case Investigation**

Being selected by the CDIC does not guarantee a case to be investigated. And investigation of a corruption case often takes some time, ranging from months to a couple of years or more. The complication of the case is no doubt a cause, and corruption cases have become more and more complicated in contemporary China. The delay of investigation also results from the decision-making procedure of investigation and the impediment of investigation from the patrons and accomplice of the perpetrators.

For the cases being selected, the CDIC cannot move onto investigation hastily, because most of the officials to be probed by the CDIC are senior echelon above ministry or provincial level. Rushed investigation on them is regarded politically sensitive, having the potential to generate negative impacts. Preliminary examination of the case and evidence needs to be done by the vice-party secretary of the CDIC first. After confirming the basic facts, he/she will report the case to the leader group—the party committee—of the CDIC for approval of investigation. If the case is feasible for further investigation, the committee will report it to the party Center for instruction of final decisions. For the cases referred back to local party committees, similar procedures are followed and the local party committee makes the key decision on whether to
investigate. In the procuratorate system, the permission of the local party committee is also required, if the BACB wants to file or repeal a case. Finally, in the process of investigation, the working groups need to report their progress to the party committees in their work units, which then report to the party center or local party committee.

This procedure, first of all, clearly ensures the dominance of party leadership in anticorruption. Other than that, one cannot help wondering what factors could induce the party center to launch an investigation on senior officials. How do they decide when to start the investigation, how and who to investigate, and how deeply to investigate?

No clear answers are found to these questions yet. Observations of the practice shed a little light on the puzzles. First, as discussed at the very beginning, the central government is quite sincere about anticorruption and worried about losing control of corruption. Therefore, the degree of severity of a corruption case must be an important “trigger” to initiate investigation. Degree of severity is gauged by the stake, the number, and positions of officials involved, and the socio-economic, as well as domestic and international impacts. Examples are seen in the “Yuanhua smuggling case”, “Office-selling case” in Heilongjiang province (chapter 6), and Zheng Xiaoyu’s recent case on drug administration, etc. Secondly, a conventional view looks anticorruption in China as largely politically driven. “Charging one’s opponents (or their close followers) with corruption—a charge that seems increasingly true for most officials—had become the weapon of choice for political maneuver (quoted from Joseph Fewsmith by Yang 2004: 249).” For instance, the downfall of Beijing party secretary Chen Xitong in 1995 is widely
read by the public as the outcome of Chen’s opposing Jiang Zemin. The removal of banker Wang Xuebing and other financial leaders was said to be aimed at Zhu Rongji, the former premier (Yang 2004: 249). Finally, the timing to initiate investigation, be it caused by factional conflicts or tactic option, seems often to be correlated with the decline of power of either the alleged official or his/her patron.

Though the Center’s concerns are obscure, the sophisticated procedure to make decisions has been consequential for anticorruption. Positively speaking, this procedure decreases the arbitrariness of filing cases. And as Yang (2004: 250) presents, no matter factional or not, the political motivations for digging up dirt can overtime play a role in combating corruption similar to that played by inter-party competition in open political contestation. But the negative side is also important. If a person gets protection, he/she could easily slip through the law. The worst outcome is that some corruption cases might be ignored and not investigated at all. Another not rare situation is serious delay of investigation.

In a recently prosecuted case of Shaanxi provincial official, Pang Jiayu, the reporter started to disclose Pang’s corruption as early as in 1998. He not only collected substantial evidences, but also provided his name, address, ID number, and cell phone number on the report letters to the CDIC so as to show the credibility and his seriousness. However, the CDIC only paid attention to the case five years later in 2003. And then it took another three years for the CDIC to carry out preliminary investigations and to get support from the party center and formally start the investigation on Pang. In the nine years between 1998 and 2007, Pang got promotion
consecutively, while the reporter suffered from retaliation. It compels people to question what has taken it so long for an investigation. Whatever the answer, if an investigation formally begins, the CDIC is still encountered with the difficulties of limited work forces and impediment of investigation from various parties.

The investigation department of the CDIC consists of eight offices (shi-bureau level) with four offices in charge of different geographical regions in China and four offices contacting different ministries and sectors at the Center. In particular, the large state owned enterprises are watched by Office One; finance, economic agencies, and the Development and Reform Commission by Office Two; science, education, and medical systems by Office Three; and railroad systems by Office Four. Office Five watches over Northwest and Southwest China, Office Six on Northeast and North China, Office Seven on East China, and Office Eight on Southeast, and Middle China. Each office has about twenty to thirty agents. Offices Five to Eight are further divided into smaller working groups (chu-one level lower than bureau) with each group supervising one province. It leaves only one to three agents in charge of the daily issues of every province.

It is said that when assigning offices and working groups, the CDIC intentionally intermixes agents with different backgrounds and separate the natives from the same localities, alumni from the same universities, or former colleagues from the same work units. The objective is to prevent the cadres from forming and being interfered by too close personal relationships during investigation and to have disinterested opinions. For this end and caused by the large workload,

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79 Dugu Zhen, “Qinquan Gaodao Sanqing ‘Diyi Tan’” [Nine Years to Get the ‘Foremost Corrupt’ of Shaanxi Province Fall Down], Jiancha Fengyun [Prosecutorial View], No.6 2007, pp.20-22
the personnel inside the investigation department often changes according to the characteristics of cases and the specialties of the cadres.\textsuperscript{79}

Temporary work teams, often called “Special Investigation Unit” (SIU, zhuăn’anzu), might be formed during investigation of big and important cases. The SIU is usually headed by a vice-party secretary of the CDIC. If more human forces are in need, the team leader might borrow cadres from local DICs and procuraterates for temporary assistance. The local cadres selected are not necessarily from the same province where the case occurs for reasons explained above. For instance, while investigating Cong Fukui—the former deputy governor of Hebei province, Liu Liying, who was in the middle of hospitalization by that time, led a team of over 10 people setting off to Shijiazhuang, the capital city of Hebei. Besides agents from Office Six, several team members were temporarily transferred from the DICs and procuratorate of Tianjin Municipality and Heilongjiang province.\textsuperscript{80}

While shouldering the mission assigned by the Center, the SIU will try to get understanding and support from local party committees first before starting investigation by holding meetings with them. The party’s guiding principle is always “education first and punishment second” towards officials with offences of corruption (e.g. Constitution of the CCP, Article 38). Thus, investigation usually starts by the SIU leaders giving public talks to cadres about local corruption without pointing out any specific officials and then encouraging voluntary confession. The

\textsuperscript{79} Interview Notes IN07/01/2004/BJ
outcomes of exhortation diverge across regions. In many places, corrupt officials would confess voluntarily facing the pressure from above. In some other localities, cooperation is not easily obtained, although the SIU is from the Center. The CDIC officials encountered stiff resistance from ‘patrons’ and accomplices of corrupt officials when they investigated high-profile cases in Hebei, Xiamen, Shantou, Shenzhen, and Nanning (Yang 2004: 224).

There are “soft” and “hard” obstacles hindering investigation. “Soft” obstacle refers to means such as covering up and lobbying that disturbs investigation. Many corruption cases that the SIUs handle involve a group of officials. Their deep connections weaved by interests and power relations lead to their mutual protection. There are always lobbyists trying to persuade the working teams to be sympathetic to the cadres under investigation. By some news resource, the CDIC receives annually between 2,000 to 3,000 letters showing concerns, begging for mercy, and prying for information for subjects under investigation. These letters are sent by both relevant persons and cadres of the party and the state, and signed in various names, including individuals, organizations, and sometimes famous persons collectively. Lobbyists in various relations with the alleged officials have given a great and invisible pressure to the investigators.

The “hard” obstacles are threats to deter investigators implicitly and explicitly. Some officials understand that their corruption crimes are too serious to be exempt; their only chance to survive is to fight back or escape. In several localities, for example in Shenyang municipality while investigating the “Mu Suixin & Ma Xiangdong case”, the CDIC agents got threaten letters

81 Yue Shan, “Weijianxing Jiangtanfu Jingren Neiqing, Baiyu Shengbuji Da’an Jiya” [Wei Jianxing Talks about Inside Information of Corruption, More than Hundred Provincial/Ministry Level Big Cases Are Stocked], 2003
intimidating them to leave. In some cases, the suspects even intended to kill the investigators. For example, in the case of “Yuanhua smuggling”, the SIU from Beijing had to bring their own cook to Xiamen city instead of hiring people locally to avoid food poisoning. Some officials also leaked information to Lai Changxing, the major culprit, helping him escape from arrest (Wank 2004).

Facing the soft and hard obstacles, the CDIC working teams have to be tactical during investigation. They sometimes have to act secretly by undercover agents. They also get breakthrough and evidences by cooperating with other government agencies, such as the Bureau of Audit, the Bureau of Public Security, the procuratorate, the Bureau of Industry and Commerce, and the Bureau of the Taxes, and so on. The CDIC usually starts investigation from relatively minor problems and lower level officials, and then point to the core issues and the higher bosses. For instance, the SIU leaders kept jesting with Chen Liangyu, the Shanghai party secretary, to delude him; while investigating several close clients of him. After collecting substantial evidences, the CDIC finally put Chen under “double-regulations” (shuanggui) for further investigation of his wrongdoing in September 2006.

The conception of “double-regulations” first appeared in 1990 in the *Ordinance of Administrative Supervision of the PRC*, conferred by the State Council, and made into the *Law of Administrative Supervision* passed by the NPC in 1997. It is a form of house arrest for the party members suspected of wrongdoing, when evidences indicate that the offences have violated the

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82 Liu Liying (vice party secretary of the CDIC), “Chaoban Anjian Yao Zhuyi” [Somethings Got to Be Noticed during Investigation], *Zhongguo Jiancha* [China Procurating], No. 11, 2001 pp.4-5
party/administrative disciplines. It is not equal to detention in legal sense that can only last for 24 hours and freedom of the culprit is strictly restricted (Article 65, Criminal Procedure Law (xingshi susongfa) 1997). The cadres under “double-regulations” are demanded to confess what he has done in the required location and during the required time period (zai guiding de didian he guiding de shijian jiaodai wenti). Both location and time period for use are not strictly regulated in law and contingent on reports of the investigation teams. This practice is invented to prevent collusion and more misconduct of the cadre in charge. In the past years, the practice is gradually institutionalized by the Party. According to the explanation of the CDIC, currently only DICs above county level have the right to utilize this method. And this method can only applied to cadres whose cases will be filed by the procuratorates. In other words, such detentions largely adumbrate the end of one’s political career and imperatively result in legal charges.

\textit{Adjudication and Punishment}

Investigation could end in different conclusions. Some officials are announced to be “clean” and exempted; some are punished by the party/administrative disciplines; others are found seriously corrupt and referred to the procuratorate for legal indictment and sentence. The major problems in the procedure lie in the arbitrariness and ambiguous criteria to determine the severity of punishment as well as the infliction of punishment.

The department of adjudication of the CDIC, like the court in the judicial system, is in charge of specifying the punishment to be imposed upon the convict according to the party regulations, policies, temporary regulations and laws. After making the judgment, it has to report to the
standing committee of the CDIC for approval first. For judgment on higher officials, the standing committee will report to the party center for final decisions. The CDIC also gives recommendation of legal penalty to the procuratorate while turning over an official to the prosecutors.

In the past, the practice of party/administrative disciplinary punishment has been defined and redefined by several party rules and laws. The party disciplinary actions, from light to severe, consist of warning, serious warning, dismissal from party positions, probation within the party, and expulsion from the party.\(^{83}\) Correspondingly, the administrative disciplinary actions include warning, wrongdoing recording, severe wrongdoing recording, demotion, dismissal from public positions, and expulsion from the public offices.\(^{84}\) All actions should be noted in personnel dossier held by the organizational departments and used as reference for appointments, promotions, transfers, and dismissals. The disciplinary punishments apparently are not as harsh as criminal penalties, which range from fixed-term imprisonment to death penalty. Moreover, these punishments are not strictly inflicted in reality. There are several examples about cadres who got promoted not long after being punished by party/administrative disciplines. More ironically, some were even elected “model party members” after getting punished in the same year.\(^{85}\) It arouses one’s suspicion of office-selling and buying in those localities.

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The newly passed party and administrative rules (enacted by the Central Committee in 2004 and the State Council in 2007 respectively) have made some improvement aiming at strengthening the fulfillment of punishment. They have clearly defined the durations and outcomes of each disciplinary action and the procedures to apply them. As Table 2.1 and 2.2 displays, the outcomes of disciplinary punishments could be quite serious for the political career of a public official. Unfortunately, the new rules do not require the relevant party committees to publicize the decisions, so the public cannot supervise whether disciplinary actions have been applied properly without information access to government decisions.

Table 2.1 Party Disciplinary Actions

<table>
<thead>
<tr>
<th>Punishments</th>
<th>Durations &amp; Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warning</td>
<td>No promotion within and outside the party in one year</td>
</tr>
<tr>
<td>Serious warning</td>
<td>Dismissal starts from the highest position one holds. No promotion within and outside the party in two years.</td>
</tr>
<tr>
<td>Dismissal from party positions</td>
<td>Lasting from one to two years, during which no rights of voting and elections are given. Party positions are dismissed at the same time. No position at the same level as before or promotion is allowed in two years after the probation.</td>
</tr>
<tr>
<td>Expulsion from the party</td>
<td>Not allowed to join the party in five years.</td>
</tr>
</tbody>
</table>

Source: Chapter Two, *Ordinance of Internal-Party Disciplinary Punishment of the CCP*, by the Central Committee of the CCP, February 17th, 2004

Table 2.2 Administrative Disciplinary Actions

<table>
<thead>
<tr>
<th>Punishments</th>
<th>Durations</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warning</td>
<td>6 months</td>
<td>No promotion, no increase of salary</td>
</tr>
<tr>
<td>Wrongdoing recording</td>
<td>12 months</td>
<td></td>
</tr>
<tr>
<td>Severe wrongdoing recording</td>
<td>18 months</td>
<td></td>
</tr>
<tr>
<td>Demotion</td>
<td>24 months</td>
<td></td>
</tr>
<tr>
<td>Dismissal from the public positions</td>
<td>24 months</td>
<td>No promotion, lower the salary</td>
</tr>
<tr>
<td>Expulsion from the public offices</td>
<td>24 months</td>
<td>Get fired by the work unit</td>
</tr>
</tbody>
</table>

While the durations and outcomes are clarified, standards to apply different punishments are actually less clearly defined than before in the new regulations. For example, the 1988 regulation recommends administrative disciplinary sanctions for graft and bribery involving sums of under Y2,000. It advises punishment from warning to demotion for sums under Y500. For sums between Y500 and Y1,000, it suggests severe wrongdoing recording to dismissal. For sums above Y1,000, it recommends dismissal to expulsion. A detailed 1990 CDIC regulation recommends a warning or serious warning for bribery or embezzlement involving sums of under Y500. It recommends a serious warning or dismissal from party positions for sums between Y500 and Y1,000. For sums of Y1,000 and Y2,000, it suggests probation within the party or expulsion for bribery or embezzlement (CDIC July 1st 1990 in Manion 2004: 129). Instead of these specific sums, the 2004 and 2007 regulations use relatively obscure words such as “somewhat serious circumstances, and “serious circumstances”. It is not all clear why the new rules want to leave more seemingly discretion of adjudication to the DICs/supervisory bureaus. One of the reasons should be the increasing higher sums and the complex nature involved in corruption today, as well as the increasing income disparity across regions in China. It is therefore harder for the lawmakers to define the seriousness of corruption simply by the amount of money. Disciplinary actions are supposed to be given based on considerations of general circumstances, especially the social and economic impacts of the crime. The more egregious the

effects, the more serious punishments are passed.\textsuperscript{87}

In addition, the range to substitute milder party/administrative disciplinary actions for harsher criminal punishment has been indeed increased in the past. As Manion (2004) notes, all relevant party regulations (including the party constitution) issued over the years stipulate expulsion from the party (and the public offices) for any cadre who commits an economic crime and is sentenced to a criminal punishment.\textsuperscript{88} But the sums involved as the standard to refer the offender to criminal punishment has been raised. For example, in cases of bribery and embezzlement of public assets, it would typically require expulsion for crimes involving sums of more than Y2,000 in the early 1980s through the late 1990s. But the bar was raised to Y5,000 in the 1997 Criminal Law. Article 383.3 recommends, for individual corruption involving sums between Y5,000 and Y10,000, if the culprit shows remorse and returns the money actively, criminal punishment could be replaced with administrative sanctions. Article 383.4 suggests, for sums lower than Y5,000 with less serious circumstances, administrative sanctions could be substituted for criminal punishment. Altogether these two sentences actually extend the original range for disciplinary actions to sums of under Y10,000.

The language obscurity and the wider range to apply disciplinary actions have given the DICs more discretion in adjudication and larger room to infringe on the jurisdiction of the procuratorates. In theory, the DICs/supervisory bureau should transfer a case or cadre to the procuratorates if the offence trespasses the criminal law (Article 32, \textit{Ordinance of Internal-Party}

\textsuperscript{87} Interview notes, IN08/10/2006/BJ
\textsuperscript{88} Manion (2004), p.129, from CDIC March 10\textsuperscript{th}, 1983; June 30\textsuperscript{th}, 1987; July 1\textsuperscript{st}, 1990; Central Committee February 27\textsuperscript{th}, 1997)
Punishment, 2004). In practice, many cases of criminal violations are handled as disciplinary matters and escape from criminal charges and further investigation. Manion (2004: 136) compares party appropriation of cases and the substitution of party disciplinary actions for criminal punishments as a sort of plea bargaining outside the legal system. In the past decades, the party members who were prosecuted and punished for crimes are always the small minority among all those punished by disciplines. For instance, The CDIC figures indicate in 1988-1997, less than 6% of those investigated and disciplined by the party were prosecuted and punished legally (Manion 2004: 137). This number went extremely low in 2002-03, that only 2.9% of the 164,831 party members getting disciplined were prosecuted and punished legally. It rose a little bit in 2003-04 to 13.2%.\footnote{Wu Guanzheng, the CDIC first secretary annual work report in 2004, 2005, and 2006. He did not mention how many party members were referred to the procuratorates in 2006. But about 21,120 were expelled from the party among the 97,260 members who got disciplined. Therefore, the percentage of prosecution should be less than 20%.}

It is worth pointing out the numbers mentioned above are the overall data reflecting the performance of the DICs at every administrative level. Field interviews seem to show that a majority of cases handled by the CDIC have been transferred to the legal systems. Some interviewee revealed that about 80% of cases investigated annually by the CDIC are turned over to the procuratorates at some moments. It is especially true for cases involving huge amounts of money and/or leading to severe social and economic consequences as well as broad public attention. The information is sensible given that primarily big and important cases catch the notice of the CDIC, and their circumstances are usually too serious to skip legal prosecution. It is reasonable to suspect that the majority of party appropriation of cases and the replacement of
criminal punishments occur at lower levels, such as county level and below. Local supervisory agencies there often tend to be poor in resources and, therefore, more dependent on local government both financially and politically than their corresponding organizations at higher levels. The dependence prevents them from pursuing harsh punishment of local cadres.

Nevertheless, the possible higher transfer rate of cases of the central and provincial level DICs does not mean they necessarily have a high turnover rate of officials to the procuratorates. Table 2.3 and Figure 2.2 compare the annual percentage of senior officials who were filed and investigated by the procuratorates of those who got party disciplined in 1988-2005. They seem to suggest that, in general, officials at relatively lower levels are more likely to be transferred to and filed by the procuratorates than those at high rankings. The only exception is the year of 2004, when Hu Jintao, the current PSG just consolidated his power as the national leader and turned the anticorruption spear to several high-ranking officials. Over years, an average of 50 percent of the officials at county level were both disciplined and legally investigated for crimes. In contrast, less than 31 percent of prefecture/general bureau level officials and only 21 percent of provincial/ministry level officials were treated the same way. To be clear, the procuratorates do not file all the cases and persons transferred from the DICs, so the percentage here is unable to accurately tell the exact proportion of officials who were transferred from the disciplinary system to the procuratorial system. However, the significant gap between 50% and 31% and 21% of officials at the three levels is hardly only caused by the rejection of the procuratorates. The transferring rates must vary across the three levels. Lower level officials are more likely to be
handed out to the legal system and to face harsher punishment by law, if officials at different
rankings get party disciplinary sanctions at the same time.

Table 2.3 Annual Percentage of Senior Officials Filed and Investigated by Procuratorates of the
Disciplined, 1988-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>County/Bureau Level</th>
<th>Prefecture/General Bureau Level</th>
<th>Provincial/Ministry level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DIC**</td>
<td>Filed and Investigated by Procurators (PR)</td>
<td>Percent (%)</td>
</tr>
<tr>
<td>1988</td>
<td>337*</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>1989</td>
<td>1579</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>1990</td>
<td>1782</td>
<td>1386</td>
<td>77.78</td>
</tr>
<tr>
<td>1991</td>
<td>1470</td>
<td>1015</td>
<td>69.05</td>
</tr>
<tr>
<td>1992</td>
<td>1031</td>
<td>652</td>
<td>63.24</td>
</tr>
<tr>
<td>1993</td>
<td>2793</td>
<td>1037</td>
<td>37.13</td>
</tr>
<tr>
<td>1994</td>
<td>3528</td>
<td>1768</td>
<td>50.11</td>
</tr>
<tr>
<td>1995</td>
<td>4880</td>
<td>2285</td>
<td>46.82</td>
</tr>
<tr>
<td>1996</td>
<td>5868</td>
<td>2700</td>
<td>46.01</td>
</tr>
<tr>
<td>1997</td>
<td>6585</td>
<td>2222</td>
<td>33.74</td>
</tr>
<tr>
<td>1998</td>
<td>5357</td>
<td>1674</td>
<td>31.25</td>
</tr>
<tr>
<td>1999</td>
<td>4092</td>
<td>2019</td>
<td>49.34</td>
</tr>
<tr>
<td>2000</td>
<td>5628</td>
<td>2556</td>
<td>45.42</td>
</tr>
<tr>
<td>2001</td>
<td>/</td>
<td>2670</td>
<td>/</td>
</tr>
<tr>
<td>2002</td>
<td>/</td>
<td>12830</td>
<td>/</td>
</tr>
<tr>
<td>2003</td>
<td>6043</td>
<td>2728</td>
<td>45.14</td>
</tr>
<tr>
<td>2004</td>
<td>5966</td>
<td>2960</td>
<td>49.61</td>
</tr>
<tr>
<td>2005</td>
<td>/</td>
<td>2799</td>
<td>/</td>
</tr>
<tr>
<td>Ave</td>
<td>/</td>
<td>/</td>
<td>/</td>
</tr>
</tbody>
</table>

Note: **Number of officials got party disciplinary punishments
* Number includes officials at higher levels

provincial/ministry level is collected from the SPP Chief prosecutor’s annual work reports from 1990 to 2006.

Figure 2.2 Comparison of the Percentage of Procuratorial Filed Officials at Different Levels, 1989-2004

![Graph showing the percentage of procuratorial filed officials at different levels from 1989 to 2004]

Source: “Percent of legal punishment” in Table 2.3

A simple explanation to the difference is that party cadres at higher levels are more self-disciplined than those at lower levels, so mistakes made by them tend to be minor and does not merit legal punishment. Secondly, the DICs probably also consider one’s previous contribution to the society when making decisions of punishment. Higher level officials are more easily to claim having devoted more to the state and may enjoy more leniency. Finally, higher officials have more power and perhaps more powerful patron, which give them more bargaining leverage and means to cover up evidences of serious crimes. These are all pure conjectures hard to get tested. So far most corruption cases and officials exposed by the media are the ones who have been transferred to the procuratorates and punished legally. For those who were only penalized by internal-party disciplines, details and decisions are seldom revealed publicly.
Prosecution and Penalty

As for the procuratorates, not all the cases accepted are filed, and not all the cases filed are prosecuted. To file and investigate a case, a procurator needs to apply for approval from the department head, the department leading group, and the chief procurator. For large and complicated cases, approval from the procuratorial committee is also required. If a local procuratorate attempts to investigate, drop, or exempt a case that is accepted by itself, it has to report the decision to the procuratorate one level up to get endorsement. A case might be rejected before filed or dropped after being filed for lack of sufficient evidence to prosecute, even if the case is transferred from the DICs. The former provincial DIC secretary of Hunan, Yang Minzhi, mentioned an example,

“There was a vice-general bureau level official involved in profiteering. The provincial DIC insisted on penalizing him by law, but the procuratorate disagreed. We had to punish him by ourselves (using disciplines only). This kind of case is not rare.”

A case could also be exempted from prosecution, if circumstances are minor, the harm is not great, and the act is considered not serious enough to constitute a crime meriting criminal punishment, according to Article 15 of the Criminal Procedure Law (xingshi susongfa, 1996).

“With an exemption from prosecution, procurators conclude a case entirely within the procuratorial system, without going to court. They could recommend the substitution of disciplinary action for criminal punishment (Manion 2004: 136).”


In practice, the prosecution rate of all the corruption cases accepted and filed by the procuratorates is quite low. Table 2.4 shows that in the years of 1990 to 2001, filed cases take an average of 49 percent of economic crimes or embezzlement and bribery cases that were accepted by the procuratorates. Between 1990 and 1996, less than 50 percent of cases and persons were formally prosecuted among the total filed cases or persons for economic crimes. In other words, more than half of the cases and persons were exempted from legal prosecution and punishment. After 1996, the terminology “economic crime” was not used any more by the procuratorates. Embezzlement and bribery were classified as a separate category in “offences of job abuse” (zhiwu fanzui). In this category, more than 60 percent of cases and persons got formal prosecuted among the entire body filed. Even though, there were more than one third of them were exempted from prosecution. And the rate of case prosecution over the accepted ones has been kept as low as less than 23 percent in the 10 years in average. It means nearly 80 percent of the cases that have been accepted by the procuratorates are not formally filed and investigated yet, or are dropped, or exempted from prosecution.

Table 2.4 Prosecution Rates of Cases and Persons for Economic Crimes, 1990-2001

<table>
<thead>
<tr>
<th>Year</th>
<th>Cases Accepted</th>
<th>Filed and Investigated</th>
<th>Prosecuted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Case</td>
<td>% over Accepted</td>
<td>Person</td>
</tr>
<tr>
<td>1990</td>
<td>129088</td>
<td>71881</td>
<td>0.56</td>
</tr>
<tr>
<td>1991</td>
<td>115393</td>
<td>68437</td>
<td>0.59</td>
</tr>
<tr>
<td>1992</td>
<td>104277</td>
<td>61424</td>
<td>0.59</td>
</tr>
<tr>
<td>1994</td>
<td>122545</td>
<td>60312</td>
<td>0.49</td>
</tr>
<tr>
<td>1995</td>
<td>126453</td>
<td>63953</td>
<td>0.51</td>
</tr>
<tr>
<td>1996</td>
<td>132073</td>
<td>61099</td>
<td>0.46</td>
</tr>
<tr>
<td>Year</td>
<td>Economic Crimes</td>
<td>Embezzlement &amp; Bribery</td>
<td>Rate of filed cases over accepted</td>
</tr>
<tr>
<td>------</td>
<td>-----------------</td>
<td>------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>1998</td>
<td>89544</td>
<td>30670</td>
<td>0.34</td>
</tr>
<tr>
<td>1999</td>
<td>83555</td>
<td>32911</td>
<td>0.39</td>
</tr>
<tr>
<td>2000</td>
<td>83461</td>
<td>37183</td>
<td>0.45</td>
</tr>
<tr>
<td>2001</td>
<td>76530</td>
<td>36447</td>
<td>0.48</td>
</tr>
<tr>
<td>Ave</td>
<td>106292</td>
<td>52432</td>
<td>0.49</td>
</tr>
</tbody>
</table>

Note: Between 1990 and 1996, the cases reported in the Chinese Procuratorial Yearbook are called “Economic Crimes”, which include bribery, embezzlement, misuse of public funds, fraud, smuggling, and so on. From 1997, this term is not used anymore. The cases reported in the year book are under the category of “Embezzlement and Bribery”.


Figure 2.3 Annual Rates of Prosecution, 1990-1996, and 1998-2001

Besides, Manion (2004: 151) shows that the exemption rate of economic crimes is much higher than that of ordinary crimes. She compares the data on cases of criminal property violation investigated by public security agencies and procuratorates between 1987 and 1996. Most crimes investigated by public security agencies are ordinary crimes, such as theft, swindling, extortion, forcible seizure, and embezzlement of public assets, committed by ordinary people. The exemption rate of this type of cases averages at 4.5% and stays quite stable over the 10 years, which provides a stark contrast to cases investigated by the procurators. The latter, mostly committed by cadres, include all cases of embezzlement of public assets, which is under
the exclusive investigatory purview of procuratorates. The exemption rate of this type of cases averages at 42%, and varies over the years—ranging from a low of 24% in 1994 to a high of 55% in 1989, the year of the biggest anticorruption campaign since 1978. The huge difference between the two types of cases “reflects the routine application of more permissive standards for officials (p.151)”. In other words, for petty crimes at similar amounts, officials are much more likely to be exempted from legal punishment than ordinary criminals. One of the reasons is the possible substitution of disciplinary actions for legal penalties explained previously. Disciplinary actions, to some degree, become a “safety net” for officials, preventing them from falling into harsher punishment.

The “more permissive standards for officials” are also reflected in cases that are prosecuted by the procurators and sentenced by the court. Manion (2004: 146) points out that the 1979 Criminal Law seems to contain the intent to hold officials to a higher standard than ordinary citizen. This principle, however, was implicitly repudiated in provisions introduced afterwards. Table 2.5 compares the punishments given upon two types of crimes in 1997 Criminal Law. One is embezzlement of public assets, which is most likely to be committed by officials. The other one is financial swindle, including ordinary economic crimes such as defrauding bank loans by fake documents and contracts; forgery checks, or malevolently overdrawing bank account. First sight comparisons between the two types suggest at least three differences. First, punishments for financial swindle are not categorized by specific amounts as those for embezzlement, but by relatively obscure language, such as “huge”, “relatively huge”, “particularly huge”. Whether the
principle of equality before the law is held for officials and ordinary citizens is therefore hard to
tell straightforwardly on page by this standard.

Table 2.5 Comparison of Punishments on Embezzlement and Financial Swindle in the 1997 Criminal Law

<table>
<thead>
<tr>
<th>Embezzlement of Public Assets</th>
<th>Financial Swindle</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Crime</strong></td>
<td><strong>Penalty</strong></td>
</tr>
<tr>
<td>Above Y100,000</td>
<td>10 years ~ life imprisonment; may with Confiscation of private property. Death penalty and confiscation of property.</td>
</tr>
<tr>
<td>If with “particularly serious” circumstances</td>
<td></td>
</tr>
<tr>
<td>Y50,000 ~ Y100,000</td>
<td>Above 5 years imprisonment, may with confiscation of property. Life imprisonment and confiscation of property.</td>
</tr>
<tr>
<td>if with “particularly serious” circumstances</td>
<td></td>
</tr>
<tr>
<td>Y5,000 ~ 50,000</td>
<td>1 year ~ 7 years imprisonment. 7 years ~ 10 years imprisonment</td>
</tr>
<tr>
<td>if with “serious” circumstances</td>
<td></td>
</tr>
<tr>
<td>Y5,000 ~ Y 10,000</td>
<td>May mitigate penalty, or be exempted from prosecution, and be only disciplined.</td>
</tr>
<tr>
<td>if showing remorse and actively returning money back</td>
<td></td>
</tr>
<tr>
<td>Under Y5,000</td>
<td>Fewer than 2 years imprisonment or detention. Disciplinary sanctions</td>
</tr>
<tr>
<td>if with “relatively serious” circumstances; if with “minor” circumstances</td>
<td></td>
</tr>
</tbody>
</table>


Secondly, for serious crimes, financial punishment (i.e. fines and confiscation of property) is up to the Court to inflict for crimes of embezzlement but compulsory by law for crimes of swindle.

Finally, as mentioned for a couple of times previously, for “petty corruption”, exemption from prosecution is allowed and disciplinary actions can be taken as substitute. Similar treatment is left absent for crimes of financial swindle.
Going back to the first difference, for the prosecutors and the Court, what amount of swindle is identified as “particularly huge” and comparable to the sum of Y100,000 in embezzlement? The recent and famous “Xu Ting Malevolently Overdrawing Account” case (Xu Ting e’yi qukuan’an) sheds some light to this question. Xu Ting, a young man, overdrew a total of Y175,000 from his bank account and then fled away with all the money abused. The Guangzhou Municipal Intermediate People’s Court identified the sum as “particularly huge” and sentenced him into prison for life time with all the private property confiscated on the first trial. The Court decision indicates, the amount of “particularly huge” for swindle is about equal to the sum of Y100,000 and above in embezzlement. It also means that official embezzlement for sums above Y100,000 is a crime at about similar degree of severity as swindle for “particularly huge” amount. However, it is noticed, first, officials who committed same degree crimes were not punished as severely as Xu; Second, for most officials who were punished as severely as Xu, the amounts they exploited are usually times of that of Xu, surpassing the amount of million yuan.

For example the lately sentenced case of Chen Liangyu, the former Shanghai party boss and ex-member of the Politburo. He was accused by the prosecutors of “helping siphon hundreds of millions of dollars out of the city’s pension fund, and enriching himself, friends, and relatives through shady financial and real estate deals beginning as early as 1988”. The bribes that he took, charged by the prosecutors, sum up to more than Y2.39 million. The Tianjin Municipal

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No.2 Intermediate People’s Court sentenced him to 18 years in prison and fines of Y300,000 for taking bribes and abusing public powers.\textsuperscript{94} If the sum of Y175,000 is “particularly huge”, the amount of Y2.39 million should be “extremely particularly huge”. Yet no particularly harsher penalties, actually more lenient punishments, were given to Chen.

One might argue that Chen’s case is incomparable to that of anyone, as Chen is so far the highest-ranking government official fallen down for corruption. Victor Shih analyzes that Chen’s case was indeed not thoroughly investigated, because that would involve the family of Huang Ju, the late member of the Standing Committee of the Politburo.\textsuperscript{95} For other high level officials who were indicted for corruption and less powerful than Chen, some of them did get death penalty or life imprisonment, such as Pan Guangtian, Cong Fukui, Li Jiating, Tian Fengqi, and Han Guizhi, and so on. They were set as “examples” to admonish the majority and to exhibit the Center’s commitment of anticorruption. However, most harsh sentences are carried out with two-year suspension, which largely deprives the severity of punishments. According to Article 51 of the 1997 Criminal Law, for death penalty with two-year suspension, if no crimes are intentionally committed in the two years, the sentence can be commuted to life imprisonment; if great contributions are made, the sentence can be commuted to 15 years to 20 years imprisonment. Many officials also get other ways to get around serving their sentences, such as claiming a bad


\textsuperscript{95} Victor Shih’s comments on Chen Liangyu’s verdict, April 11\textsuperscript{th}, 2008, \url{http://chinesepolitics.blogspot.com/2008/04/well-chen-liangyu-verdict-is-out.html}, accessed April 23\textsuperscript{rd}, 2008. And media reports also reveal that the SPP was suspected to have influenced the sentencing decisions made by the Tianjin Intermediate Court, since the collegial of Chen’s case went particularly to Beijing and wrote their decisions.
health and demanding hospitalization. How much they really suffer from the so called “harsh” or due punishments is a big question mark.

“Multi-filters” of Corruption Cases

The working procedure of the CDIC and the procuratorates described above is the routine practice of the DICs and the procuratorates at all administrative levels. The most salient characteristic of this procedure is its “multi-filters”. From case acquisition, case selection, to case investigation, and finally to adjudication, many corruption cases are filtered out of the monitoring purview of the supervisory bodies. Figure 2.4 illustrates the complicated working procedure by summarizing its major steps. For a corrupt official, $n_1$ to $n_7$ are the probabilities to continue processing the case against him. Then his/her final probability to be harshly punished by law is,

$$P = n_1 \times n_2 \times n_3 \times n_4 \times n_5 \times n_6 \times n_7$$
At least three important conclusions can be made about $P$.

**Conclusion 1**: $P$ is zero, i.e. the process will stop and the corrupt official will not get harsh punishment, if anyone of $n_1$ to $n_7$ is zero. In particular,

If anyone of $n_1$ to $n_4$ is zero, the corrupt official will go free from any punishment; and

If either $n_5$ or $n_6$ is zero, the corrupt official will only get party disciplinary punishment.

**Conclusion 2**: $P$, the probability to continue the process and to punish the corrupt official harshly, will decrease, if any one of $n_1$ to $n_7$ decreases significantly or is significantly low.

**Conclusion 3**: $P$, the probability to continue the process and to punish the corrupt official, will be
inherently quite low (<50%), even if \( n_1 \) to \( n_7 \) are as high as 90%, because of the multiple steps in the whole procedure.

The \( n \)’s are affected by many factors. Some are physical ones, such as the actual degree of corruption, the large amount of reports, and the limited human and capital forces of the supervisory body. Some factors are subjective ones and political ones, such as the social tolerance of corruption, the public trust in the authorities, the central government’s commitment in anticorruption, and the dominance of the party committees of the anticorruption agencies. And some are pure chances, as Wedeman (2004) mentions. Besides the macro social and government anticorruption sentiment that influences \( P \) in general, major factors that are discussed previously and determine each \( n \) specifically can be summarized as follows:

\( n_1 \) (case report) — citizens’ trust in local governments and anticorruption agencies; impediment of local governments; actual degree of corruption;

\( n_2 \) (case acceptance) – labor differentiation of government agencies; the ratio between work forces and workload of the anticorruption agencies;

\( n_3 \) (case selection) – quality of the reports; severity of the corruption; the “one-level down principle”;

\( n_4 \) (case investigation) – approval of the party committees; “soft” and “hard” obstacles of investigation;

\( n_5 \), (disciplinary actions) – severity of the offences and their socio-economic impacts; approval of party committees in the DICs; official’s post ranking;
n_6, n_7 (prosecution) – substantiality of evidences, approval of the procuratorial committee and party group in the procuratorates; severity of the crimes; equality before the law.

In reality, the probability of each step varies according to cases and persons in relevant and is not totally unrelated to each other. If a person has protection, all n’s tend to be low, thus minimizing P, the probability of punishment. But if he/she is in a rival faction, then the official would more likely to be punished seriously and the n’s would be high. In the high stake cases, the outcome could obviously go either way. However, in many cases, the local party secretary does not place it as a high priority, so it is easy for them to slip through.

While the accurate values of P are unknown, a rough number can be explored from previous analysis. For example, the general case acceptance rate (n_2) is revealed as 70% by some media resource with some reliability and sensibility. Table 2.3 indicates the rates for a case to be transferred from DICs and formally filed and investigated by the procuratorates (n_5) are between 21% and 50% for senior officials. By Table 2.4, we can get that the prosecution rate of persons committing crimes of embezzlement and bribery of those who are filed by the procuratorates (n_6) averages at 63%. (i.e. between 1998 and 2001) Thus we get,

P = n_1 * 0.7 * n_3 * n_4 * 0.5 * 0.63 * n_7 = n_1 * n_3 * n_4 * n_7 * 0.2205, if letting n_5 = 0.5, which is the highest average value it reaches.

The highest value that P can reach is 22.05%, if all other steps are followed at 100%, which is a condition almost impossible. The problem is that for the suboptimal outcomes, where all other steps are taken at relatively high possibility, P is still quite low. And as the probability of each
step declines, P will decline to zero fast. This is caused by the sophisticated decision-making procedure. Figure 2.5 illustrates this accelerated decreasing trend clearly. If all other steps occur at a quite high possibility—90%, the final chance to catch and punish a corrupt official is 14.5%. Whereas, when each step occurs at 60%, which is still a quite high possibility, the final P is only 2.9%, no more than 5%. And if each step occurs at a possibility of 40%, the corrupt official is nearly for sure to go free from legal punishment. Therefore, if the data analysis of the incidence of step 2, 5, and 6 is reliable, the possibility for current anticorruption system to fully work till pass a due punishment upon a corrupt official legally is between 10 to 23 percent. And this is in the most optimistic view, that is, all other steps are actively followed to continue the whole process. In other words, a corrupt official usually has nearly 80 to 90 percent possibility to escape from harsh legal penalties.

Figure 2.5 Probabilities of Getting Caught and Harshly Penalized by Law for a Corrupt Official

In a less demanding expectation of the anticorruption system, only party disciplinary actions are applied on a corrupt official. Holding the 70% of case acceptance rate constant, if all other
three steps occur at a possibility of 90% respectively, the likelihood to punish the official is 51%. Yet, this possibility plummets along with the decline of the incidence of the other steps. It falls into lower than 10% when the others occur at possibilities less than 50%. Hence, there are still at least half of the corrupt officials can totally run free, and quite likely, the majority (>60%) of them will be “filtered out” through the working procedure. The result is calculated based on the assumption that party disciplinary actions are deterrent to corruption and effective punishment.

Figure 2.6 Probabilities of Getting Caught and Punished by Party Disciplines

Summary

This chapter portrays the monitoring background of the serious corruption in contemporary China. While old anticorruption methods such as periodic campaigns and moral education continue, recent anticorruption work has been gradually institutionalized and strengthened with more legal provisions and means. Some tools are actually powerful in deterring corruption if employed strictly following rule of law, for instance, the “double-regulation”, the
party/administrative disciplinary actions, as well as legal prosecutions. However, utilization of available tools is largely conditional on circumstances, cases, and persons. Anticorruption agenda is adjusted to the priority of economic development, since the CCP has built its fundamental legitimacy on bringing economic prosperity to the state. The dominant role of the party committees at every level has crippled the supervisory organizations and caused supervision absence upon party committees, especially standing members and the party secretaries. Actually, not only the monitoring of the “first hand” of a local administration is absent, the monitors themselves are also lack of supervision. There are cases exposing that the DIC agents or prosecutors are disclosed for corruption. Chapter 6 provides examples showing that in some provinces, the positions like chief president of the provincial Supreme Court and the chief procurator of provincial Supreme Procuratorate were even up for sale. How could corrupt monitors inspect corruption effectively?

Therefore, current anticorruption establishment is only effective in controlling corruption up to some level, but not able to eliminate corruption or put it under a significantly low degree. The multiple steps of the working procedure of the anticorruption systems in many cases are indeed a “multi-filter” of corruption cases. As shown previously, by most optimistic view, nearly 80 percent of corrupt officials could escape from harsh legal penalties and at least 50 percent can evade from disciplinary punishments. The ad hoc monitoring institution apparently cannot constrain public officials from engaging in corruption. In addition, it has created loopholes for

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local officials to rely on corrupt means to increase their promotion likelihood, which will be shown in the next chapter.
Chapter 3 Promotion Likelihood and Official Corruption

This chapter provides the foundation for arguments made throughout subsequent chapters by examining the cadre management system (ganbu guanli tizhi), also called the nomenklatura system, which determines local cadre’s career through appointment, promotion, tenure, and removal from the mid-1980s to present. This management system is very powerful, because it has shaped not only the local cadres’ behaviors, but also their incentives, and furthermore their way of pursuing the benefits contained in the incentive system.

The management system has been refined and standardized many times in the past. Its most important features over time are, firstly, local leaders are appointed by the party committee one level up, so the party center decides the provincial level personnel placement and the provincial committee decides the prefecture level, and so on. In practice, the final decisions are actually made in a centralized way by a handful of people leading the party committee at each level. Local cadres are therefore highly responsive to their superiors who control their promotion and tenure. Secondly, more demanding criteria are used for cadre evaluation by setting the age limits of retirement and linking the remuneration and advancement of local leaders to performance on economic growth as well as the provision of sociopolitical goods, like education. While the age limits largely shortens the career horizon of local cadres, many economic targets of industrial development and market transformation are often out of control of the local officials, and the provision of public goods has reinforced the revenue imperative facing local leaders.  

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unintended consequence, local cadres, in order to seek promotion, utilize all means to impress their superiors, even through cheating and corruption, like inflating statistics and cultivating personal networks. Furthermore, I argue official corruption elicited in this way is systematically associated with the promotion likelihood—the possibility and difficulty of further promotion—of local cadres determined by the cadre management system, instead of random extreme behaviors purely caused by individual dishonesty.

The cadre management system is taken to be exogenous to the model of promotion likelihood and official corruption. Thus, this chapter describes this system in detail, although it does not seek to explain how the system came about and why it is structured in the present way. Rather, the system is introduced because it has shaped the incentives of local cadres. Focusing on the effects of personnel management by no means denies the importance of other factors causing official corruption. Another necessary factor making it possible for local cadres to rely on corrupt means to obtain promotion is the weakness of monitoring system. Chapter 2 has described the general structure of the monitoring system and its characteristics and problems. The following chapters will be case studies and empirical tests of the major hypotheses.

This chapter will first outline the cadre management system in China, followed by a quick discussion of its strength and weakness in constraining corruption in existing studies mainly through comparing China and post-Communist Russia. In the comparision, a point that I want to single out here is that despite the differences between China and Russia and seemingly strength of Chinese system, the Chinese monitoring system is far from perfect and that loopholes have
created room for serious corruption. Following the comparative review, I propose how promotion likelihood is better in explaining the effects of cadre management system on official corruption. Finally I explain the causal relation between promotion likelihood and official corruption in detail.

Throughout the chapter, I use the principal-agent model as the analytic framework, that is, the upper level government faces two major difficulties in managing the lower administrations, incomplete information and divergent interests between the two levels. I also assume the fundamental incentive driving local cadres is to seek career success, signaled mainly by promotion to higher positions.

“Cadre”, as a broad term in China, encompasses government and party officials, civil servants (e.g. heads of government bureaus), military officers, and technical personnel (e.g. college presidents, professors, managers of state-own enterprise, factory technicians, even teachers, etc), and so on. Cadres are differentiated from the “masses” so that they are paid by government and possess public power. Here the term is used in its narrow sense to refer to the party and state officials (dangzheng ganbu). Though I interchange the words “cadre, official, and leader” frequently, most of the time I choose the words according to the power held by a cadre, power increases along the words “cadre, official, and leader” in use.

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Cadre Management System

John Burns (1989) argues that the *nomenklatura* system is perhaps the major instrument on which the Communist Party relies to control contemporary China’s political, economic, social, and cultural institutions. This cadre management system consists of “lists of leading positions, over which party units exercise the power to make appointments and dismissals; lists of reserves or candidates for these positions; and institutions and processes for making the appropriate personnel changes.”99 All Leninist Parties depend on this system to maintain their authority over cadres to control the vast bureaucracy and access to elite status.100 Leading institutions throughout the country will exercise only the autonomy granted to them by the party (Burns 1989: x). The CCP regards its monopoly of personnel management as the organizational guarantee and the basic source of authority to fulfill its leadership in politics and ideology.101 In the past, the party-state has vigorously defended its monopoly over personnel, reacting violently whenever social forces challenge this prerogative. For example, during the Hundred Flower campaign and the 1989 Tiananmen Incident, the intellectuals’ and the students’ demand to share authority over cadres prompted the top leaders to initiate the anti-rightist campaign and military crackdown of the democratic movement. Similarly in Poland, it was only when Polish workers called for abolition of the *nomenklatura* system that the military stepped in to repress the


100 Hong Yung Lee argues that in China, no social elite exists independent of the party-state, so the conventional definition of the elite as a small group of leaders at the top of the political system or as a small social stratum in the class structure is not useful in the case of China. Possession of political power because of an official position in the bureaucratic system is what defines elite status in China. See his book *From Revolutionary Cadres to Party Technocrats in Socialist China*, p.4.

Solidarity movement. All of this has shown that the cadre management system is at the heart of the survival and prosperity of the communist system. The formulation of nomenklatura list also tells the changes of central-local relations as well as the central’s choice between political primacy and economic flexibility (Chan 2004; Mertha 2005). Therefore, many scholars have given very systematic and detailed introduction to this system (Burns 1989, Chan 2004, Lee 1991, Manion 1993, Huang 1996, Lu 2000), from the changing patterns of cadre recruitment since the establishment of the CCP to economic reform (Chan 2004, Lee 1991), to the carrying out of cadre retirement in 1980s (Manion 1993), and to the generation and continuity of informal institutions under the formal management system (Lu 2000). I will just summarize the formal management methods that are most relevant to our discussion here.

“Party Manages the Cadres”

The CCP’s following of the principal “the party manages the cadres” has justified the party’s monopoly over personnel decisions. According to this principle, “state cadres are the party’s cadres, and all cadres should be managed according to the party’s direction and policies and the principle of unified management (Lee 1991: 352).” It implies that the party has the exclusive right to set up the “line, direction, and policies” relating to personnel management, no one can challenge the party’s prerogative, and no regional variation can be tolerated. All the cadres are to carry out the party’s line and program under the leadership of the party. The principle also states that only party organs at the various levels can select, assign, and utilize cadres (Lee 1991: 352).

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The party’s prior and monopolistic authority over personnel issues is also reflected through the practical procedures. The Central Department of Organization (CDOO) under the central committee of the CCP and the Ministry of Personnel (MOP) under the State Council are the two major units in charge of cadre management at the central level. Their local units copy the structure and the working procedures from the center (Huang 1996: 90). When transmitting documents, the party’s organization departments, rather than their counterparts in the government, effectively exercise veto power over any appointment decision. A CDOO memorandum stipulates that any personnel decision requiring State Council approval—that is, any decision regarding cadres working in the administrative units of the central government—must be reviewed by the DOO first; only after this review is completed can the State Bureau of Personnel begin its own investigation. The DOO’s monopolistic control over personnel is thus evident from the relatively unimportant and secondary role the State Council plays in appointing its own cabinet members (Huang 1996: 91).

Besides cadres, the party has expanded the scope of management to all talented and skilled people ("dang guan rencai"), such as scientists, researchers, and technologists, since the year of 2002. Here “management” means to respect knowledge and innovation, to train useful human resources for modernization, and to attract capable people to the party. Although the two principles focus at different aspects, their joint objective is to prepare talented leaders for the party-state. ¹０³

¹０³ “Decisions of Central Committee, State Council About Further Strengthening the Work on Capable People” (Zhonggong Zhongyang Guowuyuan Guanyu Jinyibu Jiaqiang Rencai Gongzuo de Jueding), by Xinhuanet, December 26th, 2003,
From Highly Unified Management to Limited Decentralization

The principal of “unified management” had been closely followed by the CCP to manage all cadres since its foundation to 1949. The party shared its prerogative with no other government agencies. The party committees at every level made all major decisions on personnel matters and the DOOs handled all administrative aspects of cadre management. The system was highly centralized, that the upper-level party committees made most decisions on cadres employed at the lower levels. This centralized system was suitable to the revolutionary ages when the size of the cadre corps was small and the CCP was engaged in a desperate struggle with the Nationalists—Guo Ming Dang (GMD).

From the first five-year plan in 1953 to the years before the Cultural Revolution, the regime modified its management of cadres to fit the tasks of economic development and socialist construction. As the cadre corps grew and the types of work they were required to perform multiplied, the CCP decided in 1953 to manage cadres “department by department and level by level” (*fenbu* and *fenji*) under the unified management of party committees and organizational departments. All cadres were grouped into various functional categories (*xitong*) and managed by the party committees established in the functional departments. The level-by-level management meant that each level managed the cadres of its subordinate units down to two or three levels below (with consultation with lower level units). By 1955 the two-level down *nomenklatura* system was in place (Burns 1989: xvi). The center was responsible for ministers, vice ministers,
directors, and deputy directors of the central government and party organs, as well as for leading
cadres of provinces and prefectures. And the provincial party committees were in charge of their
own middle level cadres and leading cadres of prefectures, the municipality, and the county. 104

During the Cultural Revolution most regulations and systems were broken and after the fall of
the Gang of Four the regime restored the previous system whereby each party committee
managed the cadres two levels below. In 1980, the Central Committee re-promulgated the list of
cadre positions that it managed and ordered lower level party committees to do the same. It also
reaffirmed the previous instruction that where positions on a party committee’s nomenklatura
were to be filled by election (to comply with a newly enacted election law), authorities must first
submit the names of nominees to the relevant party committees for approval. And because the
numbers of cadres managed centrally was so great, the Central Committee divided them into
grades. Grade “A” positions included, for instance, heads and deputy heads of party central
departments and State Council ministries and commissions; ambassadors stationed abroad; the
heads of various mass organizations; party secretaries and standing committee members of
provincial party committees; and provincial governors and deputy governors. Positions of lesser
rank were designated grade “B” (Burns 1989: xvii).

Soon the two-level management by the superior party committee proved to be too highly
centralized to work effectively. People’s Daily, the party mouthpiece, once commented that the
Central Committee in Beijing was out of touch with local needs and sometimes mistakenly

104 In between those years, there was some recentralization of central management of local personnel. See Burns (1989), The
Chinese Communist Party’s Nomenklatura System.
overruled the personnel recommendations of localities, and because numbers of cadres controlled centrally were too large to examine the details of each case, the process was sometimes a formality (cited in Burns 1989: xix). The CCP gradually decentralized the personnel authority by transferring some cadres from central to local jurisdiction. It sought to spur the initiatives of local party authorities to appoint high-quality local officials and to supervise them efficiently. It was also thought to be necessary to implement new economic reforms, which emphasized increased autonomy for enterprises and local units. In 1980 a notice issued by the CDOO transferred to provincial authorities the jurisdiction over party secretaries of prefectures, directors of provincial bureaus, and responsible persons of some enterprises and business units.

The “Regulation Regarding Reform of the Cadre Management System” adopted in 1983 finally formalized the scope of cadre management by party committees at various levels. According to this regulation the center manages ministerial and provincial officials; bureau-level officials within ministries and in the provinces are managed by the ministerial party group or by the provincial party committee. This system is called “one-level-downward management”, where each level only manages the one directly below it. It has largely prevailed since 1983 and decentralized the personnel management authority to a certain extent. “As a result, the party center has been directly responsible for the appointment and removal of 7000 cadres, a reduction of some 6000 from the previous system.”

Many positions previously on the central nomenklatura are now on the institutions’ own nomenklatura. Names of some enterprises and

service units completely disappeared from the Central Committee list as a result of the reform.\textsuperscript{106} And from August to December in 1984, provincial and prefecture party committees, in turn, decentralized their control over the nomenklatura to prefecture, city, and country party committees, though impact of changes varied across provinces. As Burns points out, “the reform did not reduce the total size of the nomenklatura. Rather it redistributed authority over virtually the same number of posts to lower-level party committees and to party core groups (Burns 1989: xix).”

Since 1998, several bureaucracies of administrative regulation, financial regulation, and commodities management have been centralized or considered for centralization.\textsuperscript{107} Andrew Mertha refers to this as “soft centralization” because, “although these bureaucracies are centralized from the township/county to the provincial level, they remain decentralized between the center and the province (that is, governing the relations between the provincial bureaucratic offices and the provincial governments).”\textsuperscript{108} The reform targets at combating local protectionism and to increase the degree of standardization of policy implementation and enforcement. Under the partial centralization, the CCP at the national level still retains the monopoly on appointing leading government and Party cadres at all levels of the system. However, leaders at the sub-provincial level, such as the director and the deputy directors at the district/county levels, are

\textsuperscript{106} See Burns (1989), \textit{The Chinese Communist Party’s Nomenklatura System}, p.xviii-xix. He mentions that in spite of the reduction in the number of posts on the CC’s nomenklatura there was a significant addition. The 1984 lists extended the reach of the party CDIC by including the heads of discipline inspection groups, organized throughout central administrative agencies. CC control of these groups gave them additional clout in their fight against corruption and bureaucratic abuses.

\textsuperscript{107} Bureaucracies under partial centralization include for example Administration of Industry and Commerce, Quality Technology Supervision Bureaucracy, Pharmaceutical Supervision Management Bureau, China Securities Supervision Commission, etc.

now chosen by the Party apparatus within these bureaucracies, instead of by the “external” organization department at the corresponding administrative level (Mertha 2005: 800).

**Institutions of Personnel Management**

Ever since the limited decentralization of personnel authority, the party center has developed various means to rationalize the management of personnel matters, especially to regulate and supervise bureau-level appointments that it is not in direct control anymore.

**Screening** Each appointment decision is made by the superior organs based on a relatively systematic screening of the credentials and the past performance of the candidates under consideration. Officially, any important decision about cadre appointment should involve democratic nomination (i.e. masses, junior cadres, and retired cadres are encouraged to recommend candidates for consideration), consultation with a wide range of opinions, selection of candidates with care, investigation by DOOs (*kaocha*), and final approval by the party committee one level higher to filter out the undesirable candidates. After the selected candidates assuming the positions, through the web of DOOs and the monitoring organs—the DICs and government Audit Departments—the relevant party committees are also expected to root out cadres who flaunt central policies, are guilty of localism, or are shown to be corrupt.

**Bei’an system** Since the center relinquished direct control over bureau-level appointments, the DOO has adopted the system of reporting for the record (*bei’an zhidu*) to facilitate central

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110 Pierre F. Landry “Performance, Markets, and the Political Fate of Chinese Mayors”. *Annual Meeting of APSA of 2002*, Boston, MA 2002 p. 2. Actually before appointment, the DOOs also consult opinions from the DICs, suppose to filter out the corrupt officials, according to my field interview, IN06/23/2005/SH
monitoring of cadres whom the center no longer appointed directly. This system requires the heads of bureaus in central ministries and provincial bureaus to report to the CDOO basic information about cadres within their appointment purview every six months. The standard information includes the candidate’s name, age, length of party membership, appointment or removal requests, and scrutiny (kaocha) materials. More stringent reporting rules were imposed in sequence since 1985 so as to systematize the information collection process (Huang 1996: 93-94).

**Evaluation** The cadre evaluation system (ganbu kaohe) first appeared in 1979. Over the years, the Chinese leaders have tried to institutionalize this form of performance check by making it a regular and systematic operation. The cadre evaluation methods were set and updated every couple years (i.e.1983, 1986, 1988, 1989, 1994, 1995, and 2006) to convey the changing priorities of the center. These guidelines had laid down some similar procedures for cadre evaluation. First, the evaluators are the immediate superiors of those being evaluated. For example, in the case of bureau-level ministerial officials, the evaluation committee consists of ministers and vice ministers, secretaries of party groups, and heads of the Bureau of Personnel. For local bureau-level officials, the committee consists of top provincial and party officials. However, in the most recent version of “Comprehensive Evaluation of Cadres” (zonghe kaohe

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111 Huang 1996, p95. In 1986 the DOO stated that the bureau-level officials were required to undergo a performance review; in 1988 the DOO issued a circular outlining the procedures for performance evaluation of local Party and government officials; in 1989 it laid down similar procedures for bureau-and division (chu)-level officials in the ministries. And Shi Yun, Chen Hongzhen, & An Ruixiu, “Historical Review and Analysis of the Status Quo of the Cadre Evaluation Work” (Ganbu Kaohe Zhidu de Lishi Huigu yu Xianzhuang Fenxi), Journal of Agricultural University of Heibei (Agriculture and Forestry Education), Vol. 6, No. 3, (2004, September), pp. 102-104. P. 103: The party center raised the principle of emphasizing performance during evaluation for the first time in 1983. In 1994, the party gave new requirement on performance evaluation. In 1995 the party proposed the principle “public admission and emphasis on real performance” and later the party laid down the evaluation notice to county level officials.
“democratic evaluation” is added in, that is public recommendation, polls, and opinions are considered during evaluation.\(^{112}\) Second, the same evaluation committees also handle appeals from the evaluated. Third, the evaluation results are not immediately transmitted to the central DOO; they are put into the cadre’s dossiers for future references by the DOO when it makes appointment, removal, punishment, and reward decisions. Finally, cadres are assessed from several aspects with an emphasis of performance. In 1990s, evaluation aspects were divided into virtue, ability, diligence, and achievements, though the meaning of the four terms was ambiguous. Recently, in order to prevent overlooking of public goods provision (e.g. education) and social costs (e.g. pollution) caused by over-concentration of economic growth as well as corruption at local levels, honesty has been added as the fifth aspect by the center and environment protection is added into performance evaluation in many provinces. Right now, cadre evaluations are conducted every year to give the DOO an opportunity to make incremental changes in the leadership lineup.\(^{113}\)

**Rule-setting and selective control** The central DOO specified a series of procedures for considering bureau-level appointments, including requiring two-thirds of the members of the ministerial party group to be present when discussing a nominee, a more detailed requirement regarding the information that ministries and provinces should report, and a prior approval procedure in a number of exceptional circumstances. The central DOO still maintained control


over the appointment of the heads of the crucial functional agencies, such as the personnel departments at provincial level. The DOO also stipulates that bureau-level appointment decisions must be reported to the center immediately, the decision stands only if the DOO does not veto the decision within one month, which actually gives central DOO veto power over bureau-level appointments (Huang 1996: 96).

**The list of Reserves** Another component of the nomenklatura system is a list of reserve cadres, called the “Leading Cadre Reserve List” (lingdao ganbu houbei mingdan), which records the names of cadres who are considered to be suitable to fill vacancies on the job title list (Burns 1989: xxv). Each party committee with nomenklatura authority maintains such a list of reserves. The names of those officials proposed by lower levels for future promotion are placed on the reserve list of the higher-level party committee after it has given its approval. Though the size of this list should be larger than that of leading positions, as the administrative reform undertaken since 1982 has replaced nearly one million elderly officials, the party leaders have focused on a much smaller and younger group of potential successors. For instance, in the mid 1980s, the CDOO announced that it had placed one thousand “middle-aged and young” officials on its reserve list for appointment to ministerial and provincial-level positions. In general, sources for reserves for positions at this level are identified by the CDOO as “secretaries, deputy secretaries, and standing committee members of provincial, CAM, and autonomous region party committees; governors and deputy mayors of CAMs, chairmen and deputy chairmen of autonomous region
governments; and heads and deputy heads of central state organs.” The DOOs are required to investigate (kaohe) the background and performance of potential reservists. Party committees should discuss the results collectively and report the results for centrally managed cadres to the relevant organs for approval. If approved, the names would be added to the reserve list.

Hence, although the party has decentralized some power in personnel management, it is fair to say that the party center still dominates the decision-making of personnel in China. It still enjoys a lot of autonomy and power in the job placement of the cadres nationwide. The Politburo of the CCP in conjunction with the central DOO directly appoints all the provincial level officials (i.e. central ministers, provincial secretaries, and governors) and closely supervises the appointment of bureau-level officials. Through these stringently managed officials, the center indirectly influences the allocation of personnel at lower levels. At the same time, cadre evaluation system itself is powerful in shaping the behaviors and interests of local cadres. It explicitly seeks to encourage competition among party secretaries and government executives at the same level of the administrative hierarchy. And because the evaluation and its criteria are up to the superior administrations to set, the central leaders are able to convey their priorities to local cadres levels down. In general, centralization of personnel appointment remains the salient feature of Chinese cadre management system.

115 Whiting (2001), p. 102-103. She argues that the county leaders convey their policy priorities to township leaders by setting criteria of evaluation for them. This gives an example, how priorities are conveyed level by level from top to bottom.
Incentives as the Constraints of Corruption

The relatively centralized government is regarded as one of the most important factors for the Chinese system to foster rapid economic development and to limit the destructive effects of corruption (Blanchard & Shleifer 2001, Huang 2002, Li & Zhou 2005, Maskin, Qian & Xu, 2000, Sun 1999). The strong capability of the CCP to manage its cadre corps by autonomously allocating personnel nationwide is shown to be especially crucial to keep the transitional state centralized. The centralization of cadre management is one of the final strongholds of the Leninist state in reform-era China, which is made clearer in comparison with post-communist Russia.

Although China and Russia have experienced unprecedented corruption during their transitions to market economy, Russia’s economy continues to falter amidst rampant corruption while China’s is among the best reformed-socialist economies despite its intensified corruption. The reason that corruption tends to be somewhat less costly in China than Russia lies in the large differences in the type of reform and the nature of the state (Sun 1999). “In China, where economic reform has preceded political reform, the survival of old politics has not hindered economic reform in part because corruption has helped to turn political forces otherwise hostile to change into participants, while enabling social forces otherwise excluded from power to buy their way in. Both functions are theoretically unnecessary under Russia’s reversed sequence of reform. China’s institutional stability and expansion of a non-state entrepreneurial sector, in turn, have not left too large a functional vacuum that illegitimate forces could fill, as the mafia has
done in Russia. Finally, the stronger Chinese state is better equipped to enforce discipline and limit the nature and impact of corruption, capabilities unmatched in Russia’s weakened and divided political system.”  

To a large degree, the strong state nature of Chinese politics is maintained by the CCP’s centralized power of personnel allocation. Comparisons with Russia illustrates that there are at least three advantages for centralizing the personnel allocation in terms of resolving the principal-agent problems during market transition.

First, centralization of personnel management makes the reward or punishment of local leaders by the central government credible to the whole cadre corps. In China, the centralized power to appoint officials has allowed the central government to promote the leaders whose regions have been economically productive and to demote or dismiss the ones who have followed anti-growth policies. As an ultimate prize, the governors whose regions perform well have been brought into the national government in Beijing, like Zhao Ziyang in the 1980s. In the case of Russia, local governors are now elected instead of appointed by the central government, so the ability of the national government to reward or penalize governors through administrative and electoral support has been limited.

In terms of corruption control, credible mechanisms and reputation for discipline are crucial in

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117 Blanchard, Oliver & Andrei Shleifer, “Federalism with and without Political Centralization China versus Russia”, *IMF Staff Papers*, Vol. 48. Special Issue, 2001, p. 175. The authors show basically two factors can constrain the local leaders, the first is the share of revenue they can earn from the national pie; the second is their chance of staying in power. The second one is shown to be especially important and the more autonomy the central government can manipulate this chance, the larger leverage it possesses to control the local leaders. In terms of this, Russia is weaker than China. Actually, the Putin administration has strengthened the power of the national government by enacting a law in 2004, which eliminated the direct election of the regional leaders. Governors are now nominated by the president and subject to confirmation by regional legislatures. Information resource, US Department of State, [http://www.state.gov/r/pa/ei/bgn/3183.htm](http://www.state.gov/r/pa/ei/bgn/3183.htm), accessed October 20th, 2007
maintaining links of hierarchical authority in the transitional period. The Chinese regime has not only preserved old mechanisms but also created new ones to deal with the prevention, detection, and control of corruption. The party’s discipline inspection committee and the state’s ministry of administrative supervision both have leading agencies at higher administrative level and grass-roots offices in most public institutions. These offices have the power to investigate and discipline offenders and refer them to law enforcement agencies. The party exerts both disciplinary and legal punishments to corrupt officials and death penalties have been given to several senior officials in the past. While these institutions are not always effective or free of abuse, corruption would be much harder to control without them. However, most of these anticorruption mechanisms do not exist in Russia (Sun 1999). The demise of the Communist Party has removed its power of promotion and appointment as a control and incentive structure and precluded the use of administrative control methods to deter corruption, such as China’s monitoring offices and inspection campaigns. The division of power of government branches also makes it difficult to adopt, let alone implement, anticorruption laws. And the law enforcement agencies are reportedly to be notoriously corrupt.118

Second, the evaluation system, as the major management method of cadres, creates competition between officials, which has fostered economic development (Maskin, Qian & Xu, 2000). The incentive is especially effective among officials whose regions have similar outputs. Relative performance evaluation is widespread in China: provinces, cities, counties, townships,

and villages are continually ranked by their performance in growth, output, foreign investment, etc. Empirical studies have shown that provinces’ representation in the Central Committee and the provincial officials’ likelihood of promotion will increase with the provinces’ relative growth rankings and their financial contribution to the central coffer (Bo 2002, Li & Zhou 2005, Maskin, Qian & Xu, 2000).¹¹⁹

This competition among local governments could help to limit government’s predatory behavior in China (Qian & Weingast 1997). If officials solicit too much bribes, they could drive out mobile resources and investors. And because of the relative centralized administrative power, and the Chinese culture of “giving face”, it is usually sufficient to “buy favors” from a limited number of key persons to get through the hurdles for one service (Sun 1999: 11). However, in Russia, the administrative disorganization has created “competition for rents” of local governments. Too many agencies have tried to extract rents from new private firms, making it unprofitable to create or run a private business, at least legally (Blanchard & Shleifer 2001: 171).

Sun (1999: 11) gave the example that,

“Organizing a joint venture [in Russia] may require as many as ninety signatures and a like number of bribes… An American businessman attested that doing business was far easier in China than in Russia because in China greasing palms got results whereas the Russian practice was more akin to extortion, with no guarantee of favors in return.”

The mafia in Russia has to pay even more than legal businesses, because of the high stakes.

¹¹⁹ Maskin, Qian & Xu (2000) find that the provincial representation in the central committee is positively correlated with their relative economic rank. And Li & Zhou (2005) show that in general the Chinese central government tends to promote provincial leaders who perform well economically and terminate provincial leaders who perform poorly and the average performance over years has a larger marginal effect on turnover than the annual performance. Bo (2002, chapter 7) finds five factors of provincial characteristics and performances seem to be at work. Provincial leaders in larger population or richer provinces are more likely to be promoted than those in smaller or poorer ones. Provincial leaders in the centrally administered municipalities are much more likely to be promoted than those in other provinces. Provincial leaders with better records of financial contribution or economic growth during their tenure are less likely to be promoted than to be retained.
Russian sociologists and police contend that half of the income earned by illegal activities is spent on bribing government and law enforcement officials. Thus rent seeking may have more adverse effects in Russia than in China, for Russia is lack of institutional constraints to insure returns for bribers and to limit the level of bribery.

Third, centralization of personnel appointment aligns the preferences of the local leaders with the interests of central government (Huang 2002). Aligning-incentives is one of the advantages of implicit control that structures incentives in such a way that subordinates automatically behave in the interests of the principal. The most common way to align divergent preferences between the principal and the agent is to let the agent share some property-rights with the principal. It helps to reduce the costs of monitor and punishments. Huang (2002) points out the major personnel arrangements of the CCP are actually implicit control mechanism that aligns the local officials’ preferences with those of the political system. For example, through appointments, the center can allow the local leaders hold central positions simultaneously (cross-posting), or rotate the officials from one province to another frequently. In this way, the center curbs the local officials from being over-associated with their current local positions, and promotes them to calculate their long-term career prospects at central level. “This is a bundling

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120 For example in business, when stockholders have difficulties monitoring the performance of manager, they can assign a portion of property rights to the managers, so that the managers’ incentives are aligned with the interests of the stockholders—managers are thus concerned about capital appreciation. Implicit control is different from explicit control mechanism that directly rewards or punishes specified behavior. Explicit control includes direct supervision and regular performance evaluations, which is often difficult because of the multi-dimensional nature of many tasks. Explicit control could thus generate extra cost for information collection, monitor, and punishment. Implicit control reduces these costs by aligning the divergent preferences through property-rights sharing between the principal and the agent. See Huang Yasheng, “Managing Chinese Bureaucrats: An Institutional Economics Perspective”, Political Studies: 2002 Vol.50, pp.61-79. p. 63.
arrangement—one who pursues his own interests also pursues the interests of the community.”

Officials are more likely to link their own interests with the prosperity of the regime in general and put the central’s policies and interests in priority.

A salient difference between corruption in China and Russia is the destination of the corrupt money, which partially determines the capital losses caused by corruption. In China, the money is spent in various ways, like hidden privately, transferred to others, consumed, or reinvested in economy. But a great proportion of the money is left domestically and only some of them flee overseas in the form of savings or investment, or with the corrupt officials while they escaped abroad, which usually seems to be their last resort. However, during much of post-communist Russia capital losses were high, for primary destinations of corrupt money were overseas banks and real estate possessions. The massive capital flight was driven not only by the absence of a favorable domestic environment, but also the lack of confidence in the regime’s survival.

Corruption was coupled more with the “bank run” type panic, instead of solely seeking for profits, as the Russian Communist cadres had already begun preparing for their life after Communism (Solnick 1998). In contrast, Chinese reforms clarified rather than obscured property rights for the cadres and created incentives that addressed rather than exacerbated problems of hidden action and hidden information (Oi 1992). In most cases, corrupt agents in China require the state to survive for their rent-seeking to continue. Therefore, while corruption in Russia sped up the collapse of the regime, corruption in China could help sustain the institutional stability.

In sum, as Shleifer and Vishny point out, “the structure of government institutions and the political process are important determinants of levels of corruption, because weak governments that do not control their agencies experience high levels of corruption.”\footnote{Andrei Shleifer and Robert W. Vishny, “Corruption”, \textit{Quarterly Journal of Economics}, 58 (August, 1993), p. 599} The differences in the type of reform and the state capacities between China and post-communist Russia resulted in divergent incentives for corruption, which in turn led to different effects of corruption. In China, the centralized power to appoint local officials is a very strong leverage for the party-center to motivate its cadre corps to fulfill its objectives on economic growth and to constrain official corruption. Driven by their career concerns, the local officials would automatically pursue local economic development. At the same time, Chinese state is able to remain relatively strong, as gradual economic reform has been carried out through existing state organs under the unified leadership of the CCP. By contrast, the Russian state has been thoroughly weakened by Gorbachev’s political reform and the collapse of the Soviet system (Sun 1999). Therefore, corruption in China is less destructive than that of Russia, because of the relatively credible control mechanism, the limited level of bribery, the insurance of returns to the bribers, and the aligned preferences of the local leaders.

**Corruption Elicited by the Incentive System**

However, these advantages of the centralized appointment system in promoting local development and limiting corruption by no means signify that everything is well in China. Actually the centralized government is not always effective to ensure compliance from the local
governments (Lu 2000, Manion 1993, 2004, Wedeman 2001, 2004). There are often significant and systematic deviations from the central policies in the course of local implementation, as the common saying goes, “the top has its policies; the bottom has its counter-measures.”\(^\text{124}\) Some of the informal cadre strategies to cheat the central government during the Great Leap Forward and Cultural Revolution have shown remarkable continuity and tenacity in the course of reform. One of them is called “dissimulation” by Lu (2000), as manifested in such practices as false reporting, inflating statistical numbers, deceiving superiors, staging shows (zou guochang), and covering up misconduct and errors. Not only do all of them diverge far from the tradition of “seeking truth from facts” that the CCP has always boasted of, it seems also difficult to cure this chronic disease. As Lu (2000) mentioned that an internal publication of the CDOO admitted that, despite years of tireless efforts, dissimulation had only become more common among party members, especially high-ranking officials. It said that those who cheated, “not only got away unpunished, they actually benefited from such acts, getting promoted”.\(^\text{125}\) Corruption has also aggravated in many ways in the past years, as greater amount of money and more senior officials have been involved in corruption. And many contemporary corruption cases are conducted by group of people with extended networks, instead of individuals (Gong 2002; Wedeman 2004). While researchers have looked for reasons of the continuity, appearance, or reappearance, and the intensification of these old and new problems in factors outside the incentive system, such as the economic reform


policies and the confusion of social norms and morality during transition, the eliciting effects of the incentive system on corruption has not been fully examined.

Wedeman (2001) argues that the complexity of the linkages between center and locality is a major factor in the observed persistence of corruption and institutional malfeasance. With the prevail of “one-level-down management”, the Chinese state can be viewed as a five-level hierarchy of dyadic principal-agent relationships, where the last two levels, the townships and villages, fall outside formal state structure, and cadres employed at this level are not considered state officials. These grassroots cadres operate at the bottom of the administrative hierarchy and hence at greatest administrative distance from the center. Their links with the central government somewhat more tenuous than states cadres employed at higher levels. In practice, they are apt to be hyper-responsive to orders issued by the county, but indifferent to orders from the province or the center, because the county controls their remuneration and career mobility. \(^{126}\) In the other word, the aligned-incentive strategy of the centralized appointment system plays more effectively at the top levels down to the county officials, but less useful in motivating the grassroots officials, whose preferences are more closely aligned with their county principals.

Moreover, in a multi-layered hierarchy, the existence of even moderate levels of routine incompetence and noise that distorts the information ensures that compliance will be less than perfect due to simple error. The difficulty for the center to perfectly differentiate between simple incompetence or bad luck and willful disobedience of local officials refrain it from punishing

the local agents, because false accusation can have a highly detrimental effect on agents’ morale and their willingness to faithfully serve a principal with a reputation for arbitrariness (Wedeman 2001: 60). Thus the structure of the state puts the central government in a disadvantaged position in the distribution of asymmetric information, which enables local cadres to engage in strategic disobedience that is to pay lip service to serving the center but to stress local interests for real (Wedeman 2001).

This analysis is consistent with the economic institutional explanation to the diminishing returns to the scale of firm size (Williamson 1967; Calvo & Wellisz 1978). As the hierarchy becomes more complex and information flow turns inefficient, the centralized cadre management ability is weakened and the center faces the danger of losing control of the lower levels. According to this theory, most corruption should occur at levels below counties. And since the provincial officials’ preferences are aligned with the central government more closely, we should also observe provincial governments are more likely to report corruption instead of covering up local malfeasance.

However, the reality is that more senior officials above county levels, including central ministers and provincial officials, were found out involved in corruption in the past decade, as shown by Figure 1.2 in Chapter 1. The partial centralization since 1998 mentioned previously aims at reducing the principle-agent problem by enabling the Center to focus on monitoring a smaller number of provincial-level offices for a number of bureaucracies, whereas corruption from within those centralized system turns out to be hard to avoid. The directors of those
centrally managed units “at the apex—most notably at the provincial level—have a tremendous power, specifically (but not exclusively) over cadre appointments and finance (Mertha 2005: 804).” They are lack of supervisory checks and balances from the local governments. The geographical distance from their functional and administrative superiors also makes supervision from above difficult. And they are not responsible to corresponding local people’s congresses. It is therefore “easy for centrally managed units to establish ‘father-son relationships’: when the higher level unit discovers a problem, it might be less inclined to be overly strict with its subordinate unit (Mertha 2005: 804).” Besides, the investigation and handling of high stake cases varies greatly from one province to another (see Figure 3.1). As Wei Jianxing, the former head in charge of CDIC, commented,

“There are provinces and localities with nothing to show for years—they have handled no such cases. That they have handled none does not mean there are no cases involving very big sums [in these provinces and localities]. … Rather, the problems were being covered up….”

**Figure 3.1 Average Investigation Rates of Senior Officials across Provinces, 1996-1999**

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127 The differences of investigation rates between provinces could also be related with the different degree of actual corruption in different localities, which however always impossible to know. Nevertheless, we can reasonably suspect that provinces with similar economic, population, and geographical environment should have similar opportunities of corruption, and therefore have similar degree of corruption. But we find the investigation rates of several pairs of neighboring provinces differ greatly, for example, Beijing and Tianjin, Liaoning, Jilin and Heilongjiang, Zhejiang and Jiangsu, etc. This corresponds to Wei Jianxing’s comments that some provinces might cover up corruption intentionally.

128 Manion (2004), *Corruption by Design*, p. 162
Recent cases also show many provincial level officials (including ministers) were bought by lower level officials and became their protection umbrella at the top. In this perspective, the “hierarchical complexity” is good in explaining the persistence of corruption, but inadequate to disentangle the intensification of corruption.

Actually, the emphasis of “hierarchical complexity” essentially implies what curtails the central control of local governments is the shrinking cost of the local agents’ disobedience. Although it is not contradictory with the illustrations on the advantages of the cadre management system in constraining corruption, it is still puzzling how the “rosy picture”, drawn through comparisons with post-communist Russia, is possible with all the hidden actions of the local agents. In other words, we are lack of a complete theory about the effects of cadre management system on official corruption to tell on what conditions this system can limit corruption, and on what conditions it may induce corruption.

**Corruption and Promotion Likelihood—the Proposed Explanation**

Previous literature that uses the framework of principal-agent has looked into factors of information distribution, interests aligning, or property rights sharing between the principal and the agent, and the cost of deviant behaviors. Besides these factors, I argue the cadre management
system, as an incentive system, whose strength in driving the communist cadres depends on the possibility that those cadres, the agents in this system, expect themselves to reach the benefits provided by the system. The higher the possibility, the more drives are mobilized by the system. An everyday example might make this point clear. In a lottery game, if it is known there is only one person who can win the million dollar prize from a fixed amount of lotteries issued, many people will probably drop off because they think their chances to be the lucky guy is too small. However, if the winning pool is enlarged to a hundred winners, more people would want to give it a try, because now their chances are bigger. As the winning pool expands, the lottery will be sold out more quickly, because the greater chance to become rich tomorrow makes people less hesitant to buy a lottery with a few bucks today.

What is important to our discussion of corruption is that the driving forces could also induce unethical behaviors in some circumstances. Many management scholars and psychologists have unveiled that the rewarding goals may adversely influence organizational culture with practical examples and laboratory experiments (Degeorge et al. 1999, Boht & Meier 2000, Jensen 2001). For example Jensen (2001) contends that cheating to earn bonuses (for reward goals) is so endemic that unethical behaviors are often expected. Boht and Meier (2000) conclude that too demanding goals could lead to displacement of goals and cheating behaviors, based on their empirical analysis that some American schools exclude specific groups of students when

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129 It is different from the simple size of benefits; though raising the size of benefits can also increase incentives, the effects could be different.

reporting average standardized test scores to overstate a school’s pass rate. Similar phenomenon is not rare in Chinese politics. Lu Xiaobo (2000) points out some dissimulation behavior, like statistical falsification, arises partly due to the pressure from above to reach certain standards, particularly in economic growth (Lu 2000: 170). Furthermore, a recent study of goal setting as a motivator of unethical behavior by Schweitzer, Ordonez, and Douma (2004) finds that people who fail to reach their goals by a small margin will be more likely to rely on cheating to falsely claim that they have reached their goals than people who fail to reach their goals by a large margin. This indicates the drives to work hard and the motivation to utilize unethical means to fulfill rewarding goals could increase together while the possibility of reaching the benefits is high.

The greatest benefit that Chinese officials could obtain from the cadre management system is promotion, which can bring large marginal increases of power and welfare for an official. At the same time, the weak monitoring system leaves a lot of opportunities for public officials to resort to corrupt means to help them pursue promotion. I hypothesize that regional level of corruption is affected by the local leaders’ prospect of promotion, which I define as promotion likelihood. If we divide their promotion likelihood into low, medium, and high, I hypothesize that corruption is the most serious when the local official has mediocre promotion likelihood, because these officials have the most need of bribing their way into a promotion. Whereas rising stars likely

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have some distinct advantage and the laggards know that their chances are nil, mediocre officials believe they have a chance if only some “extra advantage” can be introduced. Bribes are kicked back from county to provincial officials and even to the center, level by level. Therefore, there is an inverse-U-shape relation between corruption and officials’ promotion likelihood.

**More Demanding Requirement to Get Promotion**

The cadre management literature shows that promotion likelihood of an official usually depends on the following factors: some objective criteria, like age and education, political and economic achievement or performance, and personal ties with one’s superior in charge of promotion issues (Bo 2002, Burns 1989, Edin 2003, Huang 1996, Landry 2002, 2004, Lee 1991, Shih 2008). As discussed previously, the criteria and procedures of cadre appointments were refined in the past to rationalize the bureaucracy, which has seriously influenced the promotion prospects of Chinese officials.

Current formal personnel regulations and personnel allocations in practice suggest that the odds of promotion strongly depend on a cadre’s personal characteristics. The common saying goes “ignorant young ladies” (*wu zhi shao nu*) are most likely to be promoted. Though sounds like a joke, this observation does make some sense. The four Chinese characters each represent a type of personal characteristic, and people with those or one of those characteristics seem to have some special advantage in personnel advancement, other factors controlled. “*wu*” refers to those people from “democratic parties” or those outside of the CCP; “*zhi*” means knowledge, here referring to the intellectuals, or people with high degree of education; “*shao*” means ethnic
minority groups; and finally “nu” means female. Hu Jintao, the current Party Secretary General (PSG), emphasized the importance of training and promoting young, female, and ethnic minority cadres in the 17th Party Congress. Attention to these people is partially reflected by the newly elected Central Committee (CC) of the CCP. Among the 204 CC members, 13 of them are female officials, 15 of them are ethnic minorities, and the average age of CC members is around 55. Scholars have more agreement on the importance of age and education in determining an official’s career prospect.

The rule of retirement requires that at municipal level, male officials should retire at age 60, female officials retire at 55; at provincial level, male officials retire at 65, female at 60. The age limits were initially introduced in 1980 to rejuvenate the post-Cultural Revolution leadership and to abolish the lifetime appointment of party and government officials. Called by Deng Xiaoping, the new cadre recruitment criteria were intended to make the leading cadres “revolutionized, better educated, professionally competent and younger in age. By replacing the “old revolutionaries” with “career bureaucrats”, the hidden objective of Deng was to resolve the succession problem by promoting a new group of leaders whose personal interests were tied to the reform policy (Lee 1991, Harding 1981, Landry 2002).

The results of the 1980s bureaucratic reform are significant. The average ages of national and

135 Lee (1991) From Revolutionary Cadres to Party Technocrats in Socialist China p.254
local officials in various government and party organs lowered for at least 6 years. For example, the average age of provincial secretaries and governors were 55 after the reform, before it was 62; that of ministers and vice ministers was 58, before it was 64.\textsuperscript{136} The reform set an important example for future cadre recruitment. Younger officials apparently enjoyed more preference in promotion than the older ones. Landry (2002) finds that the average age of Chinese mayor’s has hovered around 50 since 1990s. More importantly, he finds that mayors are usually removed from office when they reach the age of 60, unless they serve in deputy-provincial level cities (fushengji chengshi), or centrally-administered municipalities (CAM), where the formal retirement age is higher.\textsuperscript{137}

Hence, the introduction of age limits, while rejuvenating the cadre corps, has seriously shortened the political life of many officials, let alone the prospect of promotion. Although provincial level officials are not strictly enforced to retire at age 65/60, most officials would leave their positions of real power at around 65.\textsuperscript{138} Under current retirement regulation, if a cadre cannot be promoted to the municipal/bureau level before the age of 50, his/her further promotion likelihood is very gloomy.

The recruitment of younger officials is also conducive to a considerable improvement in the overall education level of officials, since newly appointed officials are typically better trained than their predecessors who were very often guerrilla fighters. For the mayors in power from

\textsuperscript{136} Data resource is from Lee (1991), From Revolutionary Cadres to Party Technocrats in Socialist China, p. 256
\textsuperscript{138} Before retiring officially, they are usually assigned to an honorary yet virtually powerless position, such as director of the provincial People’s Congress, or the director of the provincial political consultative congress.
1990 to 2000, 44% of them were college educated, and 11% had got graduate level education (Landry 2002: 4). In my sample of provincial party secretaries and governors from 1995 to 2004, 111 among the 144 observations are college educated (77.1%); and 24 of them are above college education (16.7%); only 9 are below college education. The party today not only values diploma also selects officials to have continuing education in the party schools, leading universities in China, and overseas public administration programs. In general, young and well-educated officials have a higher probability of promotion.

Performance is another factor widely believed to influence the promotion likelihood. Impartial and rigorous appraisal of performance is regarded as foundation for the merit-based personnel management system. In 1988, the CDOO established official guidelines for the annual evaluation (kaohe) of local party and government leaders from the aspects of political integrity (de), competence (neng), diligence (qin), and achievements (ji), with a concentration on actual work achievements. Edin (2003) mentions that achievements were emphasized by accounting for 60 to 70% in the total score, and political integrity, competence and diligence should together account for 30 to 40%. In an attempt to let the performance of public officials play a greater role and to facilitate measurement of the performance, national regulations on the evaluation of civil servants were passed in 1993. Very specific criteria were included in the aspect of

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139 Zhongyang zuzhibu, “Guanyu shixing difang dangzheng lingdao ganbu niandu gongzuo kaohe zhidu de tongzhi (Notice regarding Implementation of the Annual Job Evaluation System for Leading Cadres of Local Party and Government Organs),” from Findlaw.cn, http://china.findlaw.cn/fagui/xz/27/184042.html accessed October 23rd, 2007. This notice was sent to county level and below government administrations. “Political integrity” and “competence” mainly refers to the mastering of Marxism theories, professional ability, research ability, organizing capability, eloquence, writing ability, and honesty, etc.

“achievements” with unequal scores assigned to each criterion to show their importance, from gross value of industrial output, output of TVEs, taxes and profits remitted, procurement of agricultural products, to realized infrastructure investment, population growth rates, and completion rates for nine-year compulsory education. In the past, both of the principal aspects and the specific criteria have been adjusted, refined, and updated to adapt to the changing circumstances as well as to improve government functions. Right now, the fifth aspect of “honesty” is added in cadre evaluation according to the national regulations for cadre evaluation passed in 1998 and civil servants evaluation passed in 1994. “Environmental protection”, or so-called “green GDP”, is added as new indicators of performance in several provinces and cities encouraged by the central government in order to ensure a balanced development of human environment and economy.

The performance evaluation is intended not only to link officials’ performance with socio-economic development but also to use objective standards to evaluate cadres, rather than the personal discretion of their supervisors (Lu 2000). Officials now are subject to the procedures called “responsibility and standard fulfillment” system (dabiao). Based on the performance criteria, the supervisors at upper level will set detailed, usually quantified, standards and targets for their subordinates to fulfill, often with written contracts. The content of performance contracts could vary between localities and over time in accordance with the different priorities

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141 Whiting (2002), *Power and Wealth in Rural China*, p.102. Among the criteria, township-and-village-run industry accounts the most for 33 points, the secondary importance is agriculture, accounting for 30 points.

of the center and the local authorities. For example, in Heilongjiang province, the evaluation of leader collectives of the prefectures and municipalities was mainly about local economic development. It was regulated that local GDP counted for 15 points in total score of 100, and a city could earn 8 points if reaching the targeted percentage of growth set by the provincial government, and would be rewarded/deducted 0.5 points for every 1% increase/decrease.

Sichuan province requires its leaders at every level and all relevant government organs to implement the policies on saving industrial energy, and sets the target of 60% of the comprehensive usage of solid waste until 2010 for the whole province. Officials who cannot greatly save industrial energy or lower the waste will be removed. The dabiao system allows the superiors to evaluate and compare the performance of lower level officials across locales and helps them identify the most competent cadres for promotion. Most provinces rank local leaders based on their relative performance at the same administrative level. Some places and government organs clearly require the officials who rank low to resign or to be demoted or removed. Others could remove officials for failing to reach just one target (yipiao foujue), as shown in the above example of Sichuan province.

As a result, more and more demanding standards are pressured to local governments from the upper levels. And the authorities at lower levels are often left to fulfill the most concrete and demanding targets. Various evaluations and policy implementation are organized to regulate the performance of local leaders. Each province has its own policy to regulate local leaders.

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challenging targets with the most limited resources. For example, among the 33 socio-economic indicators of good governance for municipal mayors, “many of them measure the growing impact of market forces that are beyond the direct control of local officials (Landry 2002: 7).” In rural areas, a most common and important criterion to evaluate cadres is level of local economic development. “Some concrete criteria are applied: whether all villages have electricity; whether paved roads are connected to villages; whether all children of school age are able to attend schools—the list can go on and on (Lu 2000: 170).” If a certain amount of GDP growth can be generated, say, from the local township-and-village enterprises, the local leaders are likely to be promoted to higher rank or rewarded with bonuses (Lu 2000, Whiting 2002).

Furthermore, the pursuit of lofty goals is not pursued simply for the personnel advancement of officials but also for the local government agencies (Lu 2000). The ethos of CCP is rooted in a goal culture that provides motives for units to compete for formal recognition and glory. Dabiao as a method to improve local performance creates competition among local administrations. Many local governments make it “core tasks” to meet quotas and achieve targets or to surpass others to a leading stature, because those objectives become important measurement of bureaucratic competence, tied not only to personnel advancement but also to a government agency’s performance. “In some places, monetary awards or bonuses were given to reward local officials who can get more funds or investment (Lu 2000: 173).” Hence officials whose behaviors tend to be flamboyant and arbitrary are rewarded by these policies, both politically and monetarily. All in all, there are mounting pressures as well as incentives for local officials to
show evidence of achievements under their leadership, even if it means they must use unethical means like inflating statistics or corruption.

**Corruption as Means to Pursue Promotion**

While the standards and targets set from above becomes demanding, the weak monitoring system, the ambiguities of policies and regulations, and black-box operation nature in government all give local officials discretion in doing their jobs. Corruption is not excluded from their potential options to help fulfill the targets and seeking personnel advancement, besides earning monetary benefits. There are different ways that corruption helps directly and indirectly.

First of all, efforts to reach certain standards or to upgrade existing facilities often require local funding, which is especially scarce at grassroots authorities. Many localities, however, transfer these financial burdens to peasants by illegally levying excessive taxes and collecting various payments and fees, sometimes coercively, regardless of the center’s order that rural taxes cannot exceed 5 percent of peasants’ income. Wedeman (2000) mentions that by 1990, rural taxes averaged 10% of peasant income, and some places reportedly levied taxes up to 20-40% of peasant income. The financial burdens of peasants (*nongming fudan*) imposed by the “three disorders”—arbitrary charging fees, arbitrary imposing fines, and arbitrary expropriation (*sanluan: luanshoufei, luanfakuan, luantanpai*)—may have totaled between Y25 billion and Y100 billion per year in the 1990s.\(^{146}\) These extra burdens have led to vicious outcomes that in

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\(^{146}\) The “three disorders” is often categorized as unhealthy “work style” of the party (*dangfeng*). He (2000) discusses the definition of corruption in this paper. Arbitrary fees collection is in the grey area of corruption and “unhealthy tendency”. See Zengke He, “Corruption and Anti-corruption in Reform China”, *Communist and Post-Communist Studies*, Vol. 33 (2000), P. 243-270.
at least one case, a farmer committed suicide for not able to afford to pay his local “reaching rural electrification standard fund (Lu 2000: 174).” In some cases, it caused violent collective protests or peasants suing the local authorities to court or superior governments (shangfang). Early since 1990 the central government has repeatedly ordered stop of the “three disorders”, however the problem still remains today.  

As the numbers, like growth rate, industrial output, the amount of foreign investment, and tax remittance, are major indicators to measure cadres’ performance, many officials are fanatic in developing private and foreign-invested businesses within their jurisdiction regardless of the suitability of the proposed project, the reliability of the investor, or the creditworthiness of the loan borrower. On the other hand, the business elites are quite dependent upon the discretionary favoritism of local officials for protection and resources. Clientelism or informal ties is still a dominant strategy that business elites choose to maneuver their way vis-à-vis government bureaucracy, while formal institutions to lobby governments are absent (Pearson 1997). Both foreign-sector managers and private entrepreneurs recognize tremendous importance of cultivating good relations with officials in order to achieve their business goals. The entrepreneurs could use a variety of strategies, including paying local officials to establish a

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148 This is especially true for the private enterprises (minying qiy) at their infant stages. Reportedly, many private enterprises relied on the personal relationships with government officials to accumulate their initial operating capital. See Why Private Enterprises “Sin” Continues to Attract Public Eye Balls (weishenme minqi yuanzui hui bu duan yinbao gongzhong yanqiu), from Manager, January 15th, 2007, http://www.zgirw.com/News/2007115/Finance/479517756100.html accessed October 25th, 2007
collective. Local officials also find informal ties do not only benefit themselves financially, but also help building a trust-relationship with the business elites and enable them to quell unhappiness within the crucial foreign and private sectors without the trouble of building institutions. Wang Heming, a leader of CDIC, comments that the mutual utilization of public officials and private entrepreneurs is a salient feature of contemporary corruption. Among all the 109 cases of provincial and ministerial officials from 1998 to 2003 that were handled directly by the CDIC, 74 were economic crimes, accounted for 67.9% of the total cases. And among the 74 cases, 36 cases had private enterprises involved, the percentage is 48.7%; and among the 27 cases referred to the legal system for legal penalties, 23 cases included private enterprises, the percentage is as high as 85.2.

Some local officials actively seek profits for the bribers; others even serve as the protection umbrella of illegal private business. The most typical example is the “illegal small and private coal mines” (feifa xaometyao). A number of mine accidents occurred in China every year with hundred of deaths of mine workers, especially at the end of 1990s. The reason of these accidents is about the same, that is, the facilities of those small mines are too simple and not safe enough for production. Despite the crackdowns of central government, many of the illegal mines were just closed today and then re-opened tomorrow. The owners of those illegal mines found it very easy to buy protection from local governments, because bribing only one or two leaders can

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150 Ibid, p. 143
guarantee them taking-over a whole mine. Moreover, the local leaders also want to turn the illegal coalmines into “black” local fiscal resources and enrich the governments’ private treasure (xiaojinku). Many officials are also invited to join the shareholders using their administrative power as “capital”. The true reason of the sporadic mine accidents is local protectionism, as some scholars comment.\(^{152}\)

The intense pressure and incentive to fulfill socio-economic targets also distracts local officials from anticorruption. Local officials could relax corruption monitoring or cover up each other and for their subordinates to maintain spurious prosperity. Manion (2004) notes that top leaders intensify or relax the anticorruption struggle by varying their emphasis on economic growth and corruption control. “They often refer explicitly to the exhortation issued by Deng Xiaoping in 1982 to work with ‘two hands’: uphold economic reform and battle economic crime at the same time. When launching a campaign, leaders cite Deng to denounce a single-minded focus on economic growth and to signal their renewed interest in battling corruption. When ending an anti-corruption campaign, a more balanced tone is evident (Manion 2004: 162).”

Today a more commonly spoken slogan from top to bottom is, “anticorruption work should serve economic development”.\(^{153}\)

At local levels, apparently more priority is given to economy, since economic targets and standards are quantified and weighted more in personnel promotion and the evaluation of the


\(^{153}\)The former and current Party Secretary General, Jiang Zemin and Hu Jintao both emphasized this point many times in different circumstances. Local provincial secretaries of the DICs repeated this points to local leaders also.
government units. Some officials believe that if the local economy is strong, other problems would be disguised and solved automatically, so called “a beautiful point covers all ugly aspects (yijun zhe baichou).” Several corrupt officials, such as Chen Xitong and Wang Baosen, the former party secretary and mayor of Beijing, were once rising stars who made notable changes and development within their jurisdiction. People cannot help questioning what criteria the DOOs used to screen the candidates at the first place. Corruption, as for these officials, is tolerated and regarded as incentive compensation for themselves and their followers as exchange for political loyalty, policy support, and good local economy (Shirk 1993). Corruption monitoring, however, is ignored if only the subordinates are capable of generating achievements and paying their loyalty to the superiors.

Hesitation in anticorruption also exists among some local officials, who worry that too much attack on corruption could arouse social instability and hurt local economy. During the anti-smuggling campaign of Yuanhua group, local governments even resisted central investigation of corruption, not only because many officials and government organs were suborned, but also for the potential economic fluctuation. After the campaign, there were visible economic downturns in coastal regions with many storefronts shuttered and fewer customers in once-bustling commercial areas, notwithstanding that state statistics suggested a favorable economic impact. Private factories that relied upon the low-cost smuggled inputs as cloth and


plastics bankrupted. And social tensions were also likely to be heightened by the price increases that had raised living costs of low-income social groups.\footnote{David Wank, “Evolving Business-State Clientelism in China: The Institutional Organization of a Smuggling Operation”, \textit{World Bank Working Paper}, p.4-5.} Local protection has weakened the signal of curbing corruption sent from the central government. Qu Wanxiang, the vice-minister of State Ministry of Supervision, said,

“One of the four biggest problems in ‘correcting the unhealthy work style’ (\textit{jiufeng}) is that some localities and government sectors are indifferent to the work of \textit{jiufeng}. There are even serious local and sector protectionism in some places.”\footnote{Qu Wanxiang: Four Biggest Problems in Current Work of Correcting Unhealthy Workstyle (Qu Wanxiang: dangqian qiufeng gongzuozhong cunzai de sida wenti), reported by Dong Jianzhen, Xinhua News Agency, from Discipline Inspection and Supervision Press (jijian jiancha baoshe), August 16th, 2006, \texttt{http://www.mos.gov.cn/Template/home/search.jsp}, accessed October 25th, 2007.}

Therefore, in practice the party has actually presented unequal power in the two fields of economic reform and disciplining the cadre corps.

Noticing the nurturing effects on corruption, the party center has adjusted its personnel arrangements to prevent patronage, factionalism, and localism. The central government has sped up the rotation of officials across localities, positions, and different levels of the bureaucracy as well as appointed political outsiders as the top-level officials of provinces, autonomous regions and centrally administers municipalities (Huang 1996, 2002; Landry 2004).\footnote{Outsider refers to the officials who have significant service in other provinces before assuming the present positions. “Significant” means at least three years. See Huang (1996), \textit{Inflation and Investment Controls in China}, p. 210, for the measurement of “outsiders” and “insiders”.} Landry (2004) finds that from 1990 to 2003, the Center has a clear dominant strategy of provincial appointments. Only 22% of time, the provincial party secretaries can be considered political insiders, namely officials who combine primordial ties with significant professional experience in the province before their appointment. A large proportion of top provincial slots were seated
by outsiders. Besides, the center also disrupts the formation of patronage networks by rotating officials more frequently. The trends since 1990 indicate a remarkable reduction of the average term of office among provincial party secretaries from about 44.5 months in 1990 to 32.4 months by 2003.\textsuperscript{159} Terms for mayors are even shorter, “the 1990 average of 3.2 years that matched the regulatory standard for three-year appointments has now declined to a mere 2.3. Since 1998, few cadres have served a full term a mayor (Landry 2002: 5).”

Officials are also reportedly fully informed about the pace of their rotation and promotion. A country secretary said,

“Suppose someone became the county governor at 31, he would expect himself to be promoted to the party secretary in three years. And if he really became the secretary at 34, he would have no interest to think about the long-term development of the county, because he knew that he would be promoted to a larger county in three years. If he realized this goal at the age of 37, he would hope to be promoted to cities at 40, so no interest for long development of the large county either.”\textsuperscript{160}

Thus the personnel arrangements have largely shortened the time-horizon of local officials at each locality, which might be useful in constraining localism, for officials will link themselves with local interests less closely (Huang 2002). But officials would also prefer the policies that could generate significant economic growth immediately, so that they could have something to impress their superiors for the forthcoming promotion. The most effective way to realize this objective in about two to three years is probably developing real estate, having more fancy skyscrapers built, and investing large construction projects, such as new airports, magnificent


squares, or memorial parks, which are often called “achievements projects” (zhengji gongcheng).

The problem is that in many places, especially poor areas, the funding to carry out these projects are squeezed or embezzled from the really needed ones, like road paving, poverty relief, and healthcare. Very often, government office-buildings are among those lavishly luxurious “signature buildings” that are commonly justified, for example, in terms of the need to attract foreign investors or to upgrade the image of the city. In addition to the large amount of capital and resources waste, these large projects are often accompanied with serious abuse of public power, including illegal dismantling residential quarters and forcible seizure of land, behaviors infringing rights of citizens. And lots of corruption is involved in the course of transfer and utilization of land, which makes real estate corruption placed at least top three in all types of corruption in contemporary China. Next chapter examines real estate corruption more closely.

Finally, cultivation of personal ties is still important in the power arena of China and it is very costly in money. Many scholars stress the importance of informal patron-client relationship in Chinese politics, that is, the subordinate cultivates ties with the superior individually based on exchange of loyalty and advantage (Walder 1987). Burns notes that the Chinese nomenklatura system is particularly suited to patronage politics. “First, it centralizes authority over the national personnel system in the party. Although the party is not monolithic, its dominant role in personnel matters confines the search for patrons to within the party. Second, the system

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endorses personal recommendation as the best method of filling organizational positions. Abuses, such as factionalism, nepotism, and localism, can be easily accommodated in such practice (Burns 1989: xxxii-xxxiii).”

Currently, although objective performance is emphasized in evaluation of cadres, the fulfillment of targets and standards cannot accurately tell the ability of an official, considering far different social and economic environments across China. The Center does not punish the officials failing in fulfilling the targets sometimes and political loyalty still weighs a lot for promotion (Huang, 1996; Lu, 2000; Landry, 2002, 2004). “Ties” themselves can be an indicator of corruption, because they are usually built upon corrupt means. Many cadres ingratiate themselves with their superiors by actively offering help, sending gifts (sometimes very expensive), gift cards, or simply money. In extreme cases, promotion is bought and sold at very high prices blatantly. Chapter 6 scrutinizes buying and selling offices in depth by detail case studies.

Furthermore, network cultivation goes beyond just approaching the superiors, which sometimes is not enough for personnel advancement. Network cultivation requires constructing and maintaining a friend-circle, with which peers could support each other in power struggles. These networks are usually formed in various names, like same “birth place”, same “education background”, or “working experiences” (Shih 2004). Once set up, they are maintained by hospitality signaled back and forth, often through frequent expensive banquets and extravagant
entertainments.\textsuperscript{163} It is common to spend ¥10,000 on a “simple” four-people dinner.\textsuperscript{164} This kind of “ordinary” dinner is apparently very expensive for a public official whose monthly salary should not be higher than ¥5,000 at best; actually most civil servants’ monthly stipend is about ¥1,000 to ¥2,000. Obviously, the payment is either from public coffer or from corrupt income. Therefore, the costly “friendship” and “ties” make corruption a necessity for officials who chase promotion eagerly.

In general, promotion becomes tougher to obtain for a local official along with the economic reform. Encountered with more demanding targets and shortened political career, cadres feel more urgent to meet the targets rapidly and cultivate strong ties with their superiors in a short time for higher positions (or keeping current positions). Many of them are forced to resort to unethical means, including cheating, abusing public power, and corruption. The incentive system of public officials together with the weak monitoring institutions diminishes local monitoring efforts and arouses more internal and external corrupt transactions. Figure 3.2 summarizes the main causal mechanism discussed above.


\textsuperscript{164} From interview, IN08/2007/TJ
Inverse-U Relationship between Promotion Likelihood and Corruption

Officials’ reliance on corrupt means to obtain promotion is unequal. The three major factors determining promotion likelihood are 1) age and education; 2) performance, mainly measured by economic growth; 3) personal ties. Advantages in these factors are unequally distributed among local officials. Some of them are young and well educated, some might be appointed to wealthy localities with plenty of resources that can be utilized to generate growth; others might have distinctive origin of personal ties. Considering these factors comprehensively, we can roughly divide the promotion likelihood into low, medium, and high. The hypothesis is that officials with medium promotion likelihood are the most likely to use corrupt means to seek promotion.

This is because the rising stars often have some distinct advantage that others don’t. For instance, they get promoted to high positions while young, which gives them much larger room
for further promotion than other officials. Examples are former party secretaries of Liaoning province and the city of Shanghai, Li Keqiang and Xi Jinping, who were recently elected into the standing committee of the Politburo (PSC) of the CCP. These two youngest PSC members (i.e. were 52 and 54 when elected into PSC) were promoted to vice-party secretaries of Henan and Fujian provinces, respectively, in their forties and then appointed party secretaries before turning into fifties, while the average age of provincial party secretaries in China is 55, and a large group of them are in late fifties.\footnote{Resume of Li Keqiang and Xi Jinping, from www. Xinhuanet.com. \texttt{http://news.xinhuanet.com/ziliao/2002-02/25/content_289095.htm} for Li Keqiang, and \texttt{http://news.xinhuanet.com/ziliao/2002-02/22/content_286763.htm} for Xi Jinping} The cadre appointment guidelines attach special importance to young people during cadre selection and promotion and require that promotion could be awarded to those extra-outstanding young officials, notwithstanding their shortage of seniority and experience.\footnote{CDOO, “Party and Government Cadres Selection and Appointment Guidelines” (dangzheng lingdao ganbu ren yong tiaoli), 2002., from “CDOO Leaders Answering Journalist’s Questions about Party and Government Cadres Selection and Appointment Gguidelines” (zhongzubu lingdao jiu dangzheng lingdao ganbu renyong tiaoli dajizhe wen), July 24\textsuperscript{th}, 2007, Xinhuanet, \texttt{http://news.xinhuanet.com/newscenter/2002-07/24/content_495717.htm}, October 25\textsuperscript{th}, 2007} Some localities explicitly require local governments to promote a certain number of young officials at certain age.\footnote{For example, many local governments intentionally promote a group of young officials not older than 35 years ago to county level, so that they could be promoted to higher positions at relatively young age.}

Many of the rising stars also have strong connections with senior party leaders. Li Keqiang once worked in the Chinese Communist Youth League (CCYL) under Hu Jintao, the current Party Secretary General (PSG) and Xi Jinping is the son of Xi Zhongxun, a “long-marcher” of Deng Xiaoping’s generation. Local wealth is another important factor determining the degree of reliance on corrupt means. As discussed previously, many of the concrete economic targets require local funding, so relatively rich regions will be easier to meet and surpass the standards.
and targets set by above. On the contrary, the laggards know that their chances of further promotion are nil. Compared with those stars, they are the officials who do not have much advantage in age, high degrees of education, or strong personal connections.

Different from both cases, the mediocre officials believe they have a chance if only some “extra advantage” can be introduced. It becomes worthwhile for them to generate more achievements by all means or to cultivate more personal connections, possibly by bribes, to obtain a promotion. Heilongjiang’s office-selling case proves this point. The office sellers balanced between profits and the loyalty of the office buyers. Active office buyers were often those mediocre officials who hoped to add themselves some advantage among the large band of similar competitors by bribing the decision-makers. In brief, there is an “inverse-U” relationship between officials’ promotion likelihood and the degree of local corruption (Figure 3.3). I will come back to this point and test the hypotheses in Chapter 5.

Figure 3.3 “Inverse-U” Relationship
Summary

This chapter briefly reviews the formal cadre management system and related literature on its effects upon official corruption. The public officials, in a principle-agent relationship, are strongly and mainly driven by their career concerns, especially promotion. While the refinement of cadre evaluation criteria has intensely encouraged local officials to generate rapid economic growth in a short time, it has also caused pathology for the state due to the mounting pressures it has placed on the local authorities. Many officials resort to corrupt and irregular means to fulfill the targets assigned by the upper level governments. In other words, the benefits provided by the incentive system not only can induce better performance of the agents but also may elicit deviation of norms. The key question is when the incentive system will work negatively.

Combining rational choice theory with recent psychological studies, I propose the turning point of the effects of an incentive is related with an agent’s possibility to reach his/her goal, or the benefit. In the case of China, officials having medium likelihood of further promotion are most likely to be corrupt. Compared with those rising stars and the laggards, the mediocre officials believe they could have a chance of promotion if only some extra advantage, such as personal ties or better performance, is introduced. This indicates, first, career advancement could be a strong motive of official corruption in China; second, the same cadre management system has distributed unequal incentives, and therefore different motives of corruption, upon local officials. With this incentive system, corruption is limited from completely falling out of control, though it is serious.
Chapter 4 Embedded Corruption in Real Estate Development

Real estate industry has been a new engine of the Chinese economy in the past decade. But along with the industrial booming, housing in many cities became so expensive that it is viewed as one of the “new three mountains” heavily pressing upon people, together with medical care, and schooling. The rocketing of housing prices is criticized to be inflated by various corruptions embedded in real estate industry. In February 2006, construction and land transfer were ranked by the State Council the top two sectors where bribery is the most prevalent in business transactions. Apparently both sectors are closely related with real estate industry. Looking into the cases of corrupt officials in recent years, one can find that nearly all of them are involved in real estate corruption and many were senior officials controlling real powers. Following the downfall of those senior leaders very often is disclosure of groups of corrupt officials in one or several government organizations. “Real estate industry is one of the typical sectors that could most vividly exhibit how the hidden power in public offices is exploited and how power and money are exchanged”, said by Sun Liping, a sociologist at Tsinghua University.

This chapter systematically examines corruption in this industry for three objectives. First, it gives a close look at how corruption works and changes with institutional transformation in

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168 The notion of “three mountains” was first used by Mao Zedong to refer to “federalism, imperialism, and bureaucratism” that impeded the progress of China before 1949. Recently, people pick up this old notion again and give them new reference to show how much burden these three things have added on average people’s life. These “new three mountains” have got attention during NPC in the past several years, which shows the urgency to solve them. See news report, http://news.qq.com/a/20070301/000052.htm


reality. Real estate industry emerged at the end of 1980s and has undergone a fast growth since the end of 1990s. To assist market forming, relevant legal framework is gradually set up and government policies are revised and adjusted. In this process, corruption has turned into more complicated and invisible format rather than disappearing. Secondly, this chapter examines how corruption is influenced by the cadre evaluation system and officials’ promotion likelihood discussed in Chapter 3. Real estate corruption is caused by many factors all together, including government intervention in the allocation of land resources, the intense necessity of administrative approvals for a project, and the shortage of land supply and extensive housing demand naturally existing in China. However, local officials’ pursuit of further promotion has greatly intensified the degree of corruption in this sector, because real estate development could benefit their political career in many ways. Finally, through above studies, this chapter shows the validity of using excessive real estate investment (REI) as the indicator of regional corruption in Chapter 5.

In the following, I will first very briefly discuss the housing reform since the 1980s, which provides the development environment for the real estate industry in China. I will then review more carefully about the formal system managing the real estate industry, including the reform of “land use right”, the mode of land transfer, the price setting of land, the major government departments overseeing this industry, and the general process of developing a real estate project. Then I will discuss how corruption and especially bribery sneak into the formal institutions in the procedure of real estate development. While analyzing the reasons of real estate corruption, I will
focus on the role of the local governments.

**Urban Housing Reform in the Reform Era**

The Chinese real estate industry was possible to develop rapidly only after the socialist housing system was reformed and urban housing got commercialized. Under planned-economy, urban housing was basically owned by work units or housing management departments of local governments. Allocation of low rent housing to employees by the work units was one of the main welfare of socialism, along with medical care and old age security (Lu and Perry 1997). As Sato (2006) points out, a substantial difference in people’s standards of living before the economic reform were caused by the differences in the quality of housing allocated, since wage was distributed in egalitarian way. The housing welfare was enjoyed only by urban residents that rural areas were isolated from this particular system and therefore unaffected by housing problems in urban areas. The so called welfare not only brought a large fiscal burden to the government, but also created great discrepancy between housing supply and demand. Until the mid 1980s, over 27% of urban families had to share some living space with their neighbors, 76% of urban households did not own their private bathroom, and 7.4% of urban residents lived in an area lower than 4 sq. meters per capita. Reform was launched by the Chinese government to break the vicious cycle of low wage, low rent, and low quality of housing.

Early reform went through two stages. From 1978 to 1985, the reform policy was to privatize

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public-owned housing by selling housing to the public employees at the cost-price or with subsidies (chushou gongyoufang). By the end of 1985, more than 10 million sq. meters of public housing was sold in this way and 188 million sq. meters of new residential areas were built in urban areas. However, this policy mainly intended to alleviate government fiscal burden, instead of changing the housing allocation system (Chen et.al. 2005).

Between 1986 and 1990, the reform turned to the low rent of housing. The policy is to raise the rent of public housing while adding housing allowance to salaries simultaneously (tizu butie). With higher rent, the construction and maintenance of public housing could be performed smoothly. After carrying out some experiments, the State Council issued an agenda in 1988 that emphasized the rent reform and advancing real estate industry. Yet, the high inflation of the late 1980s made it very difficult to implement the rent reform (Sato 2006).

In July 1994, the State Council issued a directive that for the first time formally provided the basic framework for housing reform. The directive advocated the “commercialization (shangpihua) and socialization (shehuihua) of housing” as the key reform principle. The idea is to “abolish the work unit-based, welfare-oriented housing system gradually through housing privatization reform as well as rent reform (Sato 2006: 40).” The directive adopted differential pricing according to income level and different property rights and disposable rights of housing were given to purchasers according to the prices paid.

Further reform of the old housing system came in the late 1990s. In July 1998, the State

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Council announced the termination of in-kind distribution of public-owned housing.\textsuperscript{174} The new policy ordered the work units to grant housing allowances to employees and let them purchase owned housing. It also raised the importance to foster the real estate industry as the economic backbone. Since the second half of 1998, housing privatization has become the mainstream of housing policy.

With the reform framework, Sato summarizes that three types of housing privatization progressed at the same time after the mid-1990s. “The first was non-market transactions between work units and their employees. The second was market circulation of subsidized owned housing for lower income households who could not obtain housing from work units. This category includes ‘economical and comfortable housing (jingji shiyong fang)’ and various low-price housing projects such as the ‘comfortable housing project (anju gongcheng).’ The third type was market circulation of ‘commercialized housing (shangpin fang)’ at market prices (Sato 2006: 41).”

The growth of housing market in urban areas has largely benefited the development of real estate industry, especially after 1998. In 1990, the added value of real state industry was only Y32.5 billion, accounting for 1.8% of GDP. In 2004 the proportion rose to 4.5% and in 2006 real estate investment was as high as Y2144.6 billion, occupying 23% of the total investment in the whole society (Chen et. al. 2008). While real estate industry expands with the housing reform, many institutions managing land and real estate development are established and adjusted in

Formal Management System of Real Estate Industry

The development of a real estate project can be roughly divided into four steps: acquiring land for construction→applying and obtaining all necessary certificates and permits from various government agencies→construction→sales. In this process, the state plays assorted roles as land supplier, project supervisor, and quality evaluator through several government agencies at different levels. At the center, the State Council exercises the right of ownership of state-owned land and makes the major decisions, policies, and regulations related with land. The Ministry of Land and Resources and the Ministry of Construction provide professional opinions to the State Council, make supportive rules, and implement decisions made by the State Council. Throughout recent reforms, the three central organizations have concentrated more and more on supervising their local branches. The local people’s governments and local land management and construction bureaus, as well as their affiliated agencies, are the real policy performers who frequently interact with the development companies. This section first introduces the general management system, followed by a more complete description of the labor and power division of these government agencies at the end.

As land acquisition is the first step, the land administration system is one of the most important parts of the formal management system of real estate industry. In China, the ownership of all land belongs to the state; all other parties could only enjoy the “land use rights”. According to Article 2 of the Land Administration Law of the People’s Republic of China (hereafter referred
to as “Land Administration Law”), the ownership of land in urban and township area is called the “ownership of whole people” (quanmin suoyou); and the ownership in rural area is defined as “collective ownership by the working people” (laodong qunzhong jiti suoyou). For the land in urban area, the State Council exercises the right of ownership of state-owned land on behalf of the State. To assist forming the real estate market, the amendment of land administration law, passed in the seventh NPC in 1988, allowed the “land use rights” to be separated from the “ownership” rights. From then on, land use rights are tradable and transferable in the open market. But collectively owned land in rural areas is usually not allowed to be sold, transferred, or leased for non-agricultural or construction use, so as to protect cultivated land. With the increasing demand of land for construction during urbanization, current Land Administration Law regulates that, “the state may, in the public interest, lawfully requisition land owned by the collectives”. In other words, after converting the land into “state-owned”, the land use rights are also tradable in land market.

The Chinese land market has a three-level structure as shown in Figure 4.1. The primary market in land at the first level represents the first hand conveyance of land use rights. This level of market includes the state-owned land in urban area and the land converted from collective

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175 Article 2 The People's Republic of China practices socialist public ownership of land, namely, ownership by the whole people and collective ownership by the working people. Ownership by the whole people means that the State Council exercises the right of ownership of State-owned land on behalf of the State. No units or individuals may encroach on or transfer land, through buying, selling or other illegal means. The right to the use of land may be transferred in accordance with law. The State may, in the public interest, lawfully requisition land owned by collective... in Land Administration Law of the People's Republic of China (No. 28, amendment passed on August 28th, 2004 by the 10th People's Congress), from the Ministry of Land and Resources of the People's Republic of China, [http://www.mlr.gov.cn/mlrenglish/laws/200710/20071011_86321.html](http://www.mlr.gov.cn/mlrenglish/laws/200710/20071011_86321.html) Interpretation of the legal sentence refers to “Yidi Shengcai” [Making Money by Land], by Tu Ya, China Reform.Rural Version, July 2004 pp.14-15

176 Quotation is from Article 2, of Land Administration Law. Interpretation of the legal sentences on land ownership refers to “Yidi Shengcai” [Making Money by Land], by Tu Ya, China Reform.Rural Version, July 2004 pp.14-15

177 The introductory framework of the three markets refers to “Urban Land Management System” in Chapter Five of Li (1996), Privatization of Urban Land in Shanghai, pp.43-45
ownership to state ownership through requisition. Therefore, the grantor must be the state, which decides how much land will be supplied based on the overall plans of land utilization annually. The grantee is usually a development company. Because land ownership still stays with the state, what are really sold are land use rights with specific length of duration. For example, land use rights for residential use are normally granted for seventy years and those for industrial use are fifty year leases. “Nevertheless, under section 41, Chapter 6 of the 1990 Ordinance of Conveyance and Transfer of Land Use Rights, land use rights can be renewed upon payment of renewal fee when the term expires.” It turns land use rights technically into long leasehold interest (Li 1996: 70).

Figure 4.1 Structure of the Land Market in China

![Diagram of the Land Market]

Note: This Figure partially refers to Figure 5.1 in Privatization of Urban Land in Shanghai, by Li Linghin (Hong Kong University Press, 1996), p.44

The secondary market in land governs the transfer of land use rights from development companies to land user, for example, residents of commodity housing, after certain physical
development has been carried out. The transfer of land use rights in this market can take the form of transfer of physically improved land, or the transfer or leasing of properties built on the land. When land users obtain the land, the time limit on the land use rights is reduced by the time used by the development company during their period of occupation. This principle to adjust term of the land use rights holds in the third level of the market, the tertiary market. In this market, land use rights are transferred horizontally by different land users, the first of whom have obtained rights from the development company.

A major difference in land between the first two markets is that, land transferred from the state to the companies is only vacant land. Whereas, the land has to be improved before it can be transferred in the secondary market. According to Article 38 Chapter IV in the Urban Real Estate Management Law of the People’s Republic of China (hereafter referred to Urban Real Estate Management Law), two conditions must be met before reselling the land. First, the conveyance fee of land use rights is paid completely and the “Land Use Rights Certificate for State-Owned Land” has been obtained; secondly, at least 25% of total stipulated development costs have to be spent. Such restrictions are to deter land speculation as what happened in early 1990s in Hainan province. Development companies basically were transferring the land use rights among each other immediately to charge higher prices without either the intention to develop the land or the consideration of the market demand in reality. The prosperity finally proved to be short-lived.

and bankrupted in 1993.\textsuperscript{179} 

Land in the secondary market can also move upward in addition to being sold downward. Article 25 in Chapter III in \textit{Urban Real Estate Management Law} requires that development companies must carry out construction on time. A “land waste fee” (\textit{tudi xianzhi fei}) up to 20\% of the conveyance fee could be levied for one year delay. The state could also requisition the land without compensation if construction delays for more than two years.\textsuperscript{180} Above measures actually serve a common end, i.e. to strengthen the state monopoly of land supply in the primary market.

To support land supply of the state, most cities have set up the land reserve system. It first appeared in Shanghai in 1996, then in Hangzhou city, and Shenzhen city and widely spread after 2001 when the State Council instructed the local governments to try land requisition and reserve system.\textsuperscript{181} Under this system, the municipal land and resource management bureaus establish the “land reserve center” (\textit{tudi chubei zhongxin}) and the “land trade center” (\textit{tudi jiaoyi zhongxin}). Land reserve center is responsible of obtaining and reserving land and land trade center organizes open sale of land.\textsuperscript{182} As mentioned above, there are two major resources to gain land, one is to requisition agricultural land and convert it to land for urban construction; the other is to procure back or reclaim the land that is not really utilized in the secondary market. The land

\begin{footnotesize}
\textsuperscript{179} “Pan Shiyi Renwei: Hainan Fangdichan Haiwei Baituo Paomo Houyizheng” [Pan Shiyi thinks: Hainan province has not been rid of the post real estate bubble trauma], April 23\textsuperscript{rd} 2006, \textit{Xinhua Net}, \url{http://news.xinhuanet.com/house/2006-04/23/content_4463046.htm}, accessed June 28\textsuperscript{th}, 2008

\textsuperscript{180} Article 25, Chapter 3 Real Estate Development, \url{http://www.mlr.gov.cn/zwgk/flfg/tdglflfg/200406/t20040625_395.htm}, accessed Feb 20\textsuperscript{th}, 2008

\textsuperscript{181} The State Council, “Guanyu Jiaqiang Guoyou Tudi Zi chan Guanli de Tongzhi” [Directions about improving management of state-owned land resources], April 30\textsuperscript{th}, 2001, \url{http://www.cas.cn/html/Dir/2001/04/30/5769.htm}, accessed Feb 20\textsuperscript{th}, 2008

\textsuperscript{182} Some cities, for example Dalian city, combine the land reserve center with the trade center into “land reserve and trade center” (\textit{tudi chubei jiaoyi zhongxin}).
\end{footnotesize}
reserve center should carry out some preliminary development on the land in reserve to prepare for land-sale in the primary market. It removes the old buildings, clears up the land, and installs the infrastructures, like electricity and water supply system. The more investment the reserve center puts in, the more room the land trade center has to charge higher prices during open transactions. 183

The state controls not only the total amount of supply but also the pricing of land by setting the benchmark price. Benchmark price is the “average price level established within a specific time period in a particular area/locality for a particular land use. It is set by the government land management departments and the state valuation committee according to land transaction data as well as actual and expected revenue from land. Apart from being a baseline for assessment of average land prices in a given neighborhood, the benchmark price can also provide a basis for assessment of property taxes and capital gain taxes……” In addition, it provides a guideline for negotiation of land price and influences the final deal—the transaction price—when a specific site is about to be disposed by the authority (Li 1996: 71). A unique characteristic of the state appraisal system is the fact that the benchmark prices always have a component-structure rather than a single sum. In such cases, the average land price as appraised by the authority is composed of several elements, including conveyance fee, payment for infrastructure development in the neighborhood, and the compensation payment for the sitting tenants. This may not be explicitly found in the economies such as the USA or the UK (Li 1996: 77).

As for the mode of trade, land use rights could be sold by private treaty (xieyi), open tender, auction, or listing before. To encourage fair and transparent competition, the State Council ordered in 2002 that all land for profits-making, including commercial, tourism, entertainment use, and commodity housing should be sold by open tender, auction, and listing (“open TAL”).

Theoretically speaking, right now these three modes are the only means to get land for the purposes mentioned above and land should go to the highest bid.

The whole procedure of real estate development is overseen by several government agencies, which issue various certificates and permits to development companies. These government agencies are responsible to the central and local authorities. At the central level, the most relevant agencies are the Ministry of Land and Resources and the Ministry of Construction. The Ministry of Land and Resources is responsible for planning, administration, protection, rational utilization of the natural resources, such as land, mineral, and marine resources. It participates in formulating and examining the urban overall plan which defines the purposes of land and classifies land into land for agriculture, land for construction and unused land. It compiles and implements the plans that are submitted to and approved by the State Council. It also develops policies, enacts laws and regulations, and promulgates the rules governing the management of land. An important task shouldered by the Ministry of Land and Resources is to protect and encourage the development of cultivated land; to enforce the control over different purposes of

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land used for agriculture, and to ensure the increase instead of decrease of cultivated land. This task is in the concern of food security and the huge population, especially rural population, and the scarcity of arable land in China.\(^\text{185}\)

The Ministry of Construction also participates in formulating and examining the overall plan of urban land use. In contrast to land ministry that manages natural resources, the Ministry of Construction takes more care of the efficiency of utilization of the land for construction. It oversees civil and urban planning, construction quality, construction criteria, and the provision of urban infrastructure. It governs the general order of the construction and real estate sectors by setting national standards, rating companies, supervising bidding in construction industry, and monitoring the quality and safety of construction projects. Same as other government agencies, it makes related policies, rules, and regulations.\(^\text{186}\)

Actually most land transactions occur at local levels, so the work of the central ministries has largely focused on supervising law enforcement by departments at various levels and inspecting implementation of plans for land use. In the land management system, the central ministry directly supervises the Provincial Bureaus of Land and Resources (sheng guotu ziyuan ting) and Municipal Bureaus in the Central-Administrated Municipalities (CAM).\(^\text{187}\) The provincial bureaus then manage the municipal bureaus at prefecture level, so on and so forth. The land

\(^{185}\) In 2000, China’s per capita cultivated land was only 0.101 ha. on average, only a third of the world average, according to a communiqué released by the State Environmental Protection Administration. See “China’s Per Capita Cultivated Land Barely Half of World Average”, by People’s Daily, [http://english.peopledaily.com.cn/english/200106/05/eng20010605_71806.html](http://english.peopledaily.com.cn/english/200106/05/eng20010605_71806.html), accessed Feb 21, 2008. For the missions and functions of the Ministry of Land and Resources, see its official website, [http://www.mlr.gov.cn/mlrenglish/about/mission/](http://www.mlr.gov.cn/mlrenglish/about/mission/), accessed Feb 21, 2008


\(^{187}\) Names of these general bureaus could vary. For example, in Shanghai, it is called “Shanghai Housing and Land Resources Management Bureau” (Shanghai fangwu tudi ziyuan guanliju).
reserve center and land trade center, mentioned before, are two of the affiliated organizations to local land management bureaus. Functions of the local bureaus of land management correspond to that of the central ministry and local bureaus submit the plans of overall land utilization in that region to the local people’s governments, which report to and get approval from higher level governments in according to the division of power limit in land approval. The local land management bureaus issue “Land Use Rights Certificate for State-Owned Land” to companies that have acquired land in that region.

The structure of the construction system at local level is not as unified as the land system. The wide range of missions of the central Ministry of Construction are functioned by different departments at local levels, including administrations of construction, urban planning, public works, transportation, housing, and so on. The central ministry directly supervises the Provincial Bureaus of Construction (sheng jianshe ting), the Construction Commission (jian wei) in the provincial capitals, the CAMs, and some vice-provincial cities, like Qingdao, Ningbo, and Shenzhen, etc. Besides, two important governing agencies of real estate industry—the municipal bureaus of urban planning and housing administration—in some of those large municipalities are also directly subordinate to the central Ministry of Construction. Whereas, in most provinces, the two municipal bureaus are under the provincial bureaus of construction, parallel to the municipal bureau of construction in terms of administrative level. Figure 4.2 roughly summarizes

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188 Six municipal housing bureaus are among the local branches of Ministry of Construction, Tianjin Land and Housing Administration Bureau, Shanghai Housing and Land Resource Administration Bureau, Chongqing Land and Housing Administration Bureau, Chengdu Housing Management Bureau, Kunming Housing Management Bureau, and Xiamen Land and Housing Administration Bureau.
the structure and government relations of the land and construction systems from central to
prefecture level. We should point out that in many cities the bureau of housing administration
and land management has been merged into “Land Management Bureau” or “Land and Housing
Administration Bureau”. In that case, land and housing bureaus are co-directed by the land and
construction departments one level above.

At prefecture level, the municipal bureaus of urban planning issue two permits to development
companies that have obtained the “Land Use Right Certificate”. One is the “Land for
Construction Planning Permit” (tudi jianshe guihua xukezheng); the other is the “Construction
Project Planning Permit” (jiangshe gongcheng guihua xukezheng)”. And then the companies
need to apply for the “Construction Permit” (shigong xukezheng) from the municipal
construction bureaus. Only with all the certificates and permits mentioned above are the
companies allowed to start their development projects. Before the buildings are for sale, the
companies must also apply for the “Housing Property Rights Ownership Certificate” (fangwu
chanquan suoyou zheng) from the bureaus of housing administration.
Figure 4.2: Structure of the Land and Construction Schemes
Corruption in the Process of Real Estate Development

With so much government intervention, it is not surprising that corruption is serious in the real estate industry. Though corruption in China is often characterized as more “centralized” and in relatively smaller volume comparing to that of post-Communist Russia and India (e.g. Bardhan 1997, Sun 1999), real estate corruption is not exactly that case. As various government agencies have a say, getting a real estate project approved often equals to sending bribes to every bureaucrat in charge, which has created a lot of “grey cost” for the society. A developer in the city of Chongqing frankly commented that, whenever there is the need to get the “official signature”, there is a possibility of corruption. A manager of a large real estate company in Nanjing estimated that if government power was under public supervision, the cost of a real estate project could decline 15% in average approximately.189 In addition to the high volume of bribes, what also attract one’s attention are the complicated and volatile formats of corruption in the procedure of project development. Among the four steps, land acquisition, obtaining permits, construction, and sales, the first step includes the most complex types of corruption.

Land Acquisition

Similar as the notorious “official profiteering” (guandao) in 1980s which was aroused by the

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“dual-price system”, most corruption about land acquisition is related with the “dual-track” of market and non-market systems of land. Apart from the market system of land for commercial use, the old administrative allocation system (huabo) still remains. The construction projects for public and non-commercial ends could apply for allocation of land through the administrative channel without any need to pay (Li 1996). This creates incentives and opportunities of corruption, because in reality the purpose of land in definition is up to claim by local leaders, and the allocation system is selected at their convenience.

A worst type of corruption in land allocation is that local officials arbitrarily give away land for free utilizing their power of administrative approval of land. The most infamous example is probably the “Mu&Ma Case” in Shenyang city, where both the party secretary Mu Suixin and the deputy-mayor Ma Xiangdong of the capital city of Liaoning Province were investigated and caught for corruption in 1999. One of their crimes was about illegal land transactions. Liu Yong, the head of a mafia group in Shenyang, sent Ma Xiangdong Y2 mil in total for three times and Mu Suixin US$170,000. Soon after, Ma approved a huge plot of land in a business center to Liu Yong for free. This land was in fact worth for at least Y0.35 bil at that moment by state appraisal.190 In this kind of case, land is usually distributed in the disguise of public or

non-profit use, like building economical and comfortable housing for low-income families. After getting the land, the developers either re-sell the land in the secondary market or build high-priced commodity housing.

For instance, the former provincial governor of Guangdong, Yu Fei, appropriated 3,500 mu (1 mu=666.67 sq. meters) area of land to his daughter’s Hong Kong company, whose registered capital was no more than HK$10,000. Reportedly, his daughter effortlessly made Y2,800,000 by selling the land.\footnote{You Duoshao Fubai Chengben Daru le Fangjia” [How much corruption cost is calculated into housing prices?], source Zhejiang Zaixian [Zhejiang Online], March 28\textsuperscript{th}, 2005, from http://www.jhjw.gov.cn/05/10652.htm, accessed Feb 24\textsuperscript{th}, 2008} A more recent case was found out in Anhui province. From January 2002 to March 2007, the executive and vice-executive of the land management bureau of Wuhu county, Chen Shangcang and Bian fuchun, together with Dong Bichun, the head of the mineral resource office inside the bureau, gave away 96 plots of land, which should have been sold on market, to a mechanical corporation and a jewelry company that were not qualified to apply for free land through administrative allocation. The 96 plots of land, occupying an area as large as 854 mu, was worth more than Y6,870,000 by market price. After obtaining the land, the companies transformed it to commercial use without making up the land conveyance fee to the government as regulated by the state law.\footnote{Anhui: Tudi Guanli Lingyu Chengwei Fubai de Duofa qu” [Anhui: land management becomes a sector with high corruption], Xinhua Net, December 26\textsuperscript{th}, 2007, at 11:22am, by http://law.cctv.com/20071226/101943.shtml, accessed Feb 24\textsuperscript{th}, 2008}
The other type of corruption is that local government or government organizations utilize their use rights of allocated land to participate in real estate business. Some local governments sell or lease the land that is originally planned for public use at the market price to earn higher profits. It results in the lack of supply of civil infrastructure and hinders long term economic development of a locality. Other local governments and government agencies might carry out real estate development by themselves or in cooperation with development companies first and then sell or lease the buildings to the public. Yang Renyuan, the head of Jiangsu Provincial Bureau of Land Management, noted in 2001 that some development companies built commodity housing on the allocated land of state-owned mineral and resource districts and shared profits with those districts. He mentioned that many state-owned enterprises (SOE) disposed the state land illegally during SOE reform. By 1999, only 60% of the enterprises had followed the norms while disposing the land use rights of state-owned land. Yang estimated that illegal land transactions that were mentioned above had brought the province of Jiangsu about ¥10 billion fiscal losses.\footnote{Yang Renyuan, “Jiada Tudi Shiyong Zhidu Gaige Lidu” [Increase Land Use System Reform], (2001), Jiangsu Jingji [Jiangsu Economy], from \url{http://report.drc.gov.cn/drcnet/corpus.nsf/c5941e2eb286283448256538000d3426/01ea8b61a9517907482569ee0012076b?OpenDocument}, accessed Feb 25th, 2008}

In the market system of land, corruption is strongly influenced by the coexistence of multiple transaction modes of land use rights. The transaction modes include private treaty, open tender, auction, and listing (hereafter I refer to the last three as “TAL”). However, by 2003, 95% of land
around the country was transferred by private treaty at low prices; only 5% of land was sold publicly at competitive prices by TAL.\textsuperscript{194} Theoretically speaking, if land is sold on market, the information like benchmark prices, location, and final transaction price, all should be publicly announced no matter which transaction mode is in use. Nevertheless, for a long time, the information was accessible to selected people and transparency merely existed on government documents in many places. For example, the government advertisements of land only appeared on some newspapers, such that firms might miss the information if not reading the newspaper.\textsuperscript{195}

Sometimes, the government officials might release the information solely to persons close to them. Limited information revelation made open TAL impossible, and most land was sold by private treaty that deals between the government and a development company was negotiated outside of public sight. Take the example of land for industry use, when the government sold land by private treaty, the land always went to large enterprises and the small to medium enterprises had no chance to acquire land. A president of a small electronics company recalled, “Before open TAL was practiced in Shenzhen, we did not know how to get land from what government departments at all.”\textsuperscript{196}

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\textsuperscript{194} Zhu Hongjun, “Fangdichan Laoban Jiemi Nadi Xingong, Yougongzhang de Difang Jiuyou Fubai Keneng”, November 23\textsuperscript{rd}, 2006
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\textsuperscript{195} PHIN02/22/2008/TJ, Phone interview conducted in East Lansing, MI, U.S., interviewee is in Tianjin.
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Land transaction by private treaty had not only saved profits-making opportunities to selected groups, but also left room for black box operation. Because the transaction was made secretly, government officials could reduce any amounts of conveyance fees of land at their will. One example is the former vice-provincial governor of Anhui, Wang Huaizhong, who was executed for serious corruption in February 2004. A great portion of the bribes that he took was from real estate developers. For instance, between 1995 and 1997, Wang helped solve many difficulties in real estate development for the Guoyin Investment Corporation (Guoyin Touzi Jituan) by influencing decision-making of the related government departments. He also reduced the infrastructure fees of Y1.023mil for Guoyin Investment. In July 1997, Wang took Australian $ 10,000 given by the president of Guoyin when he sought foreign investment for Anhui in Australia. From 1997 to 1999, Wang took bribes of Y400,000 from the managers of Fuyang Huixin Development Ltd. for four times and assisted them solving the problems of land as well as dealing with the tenants in that locality.197

Changing the purposes of land in definition is a common trick in private treaty, too. Usually the land use rights for industries are sold much cheaper than that for housing and commercial buildings. Some real estate developers find this loophole and bribe the bureaucrats in land

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administration departments to redefine the land for housing as land for industries, sometimes even as “unused land”. And one of my interviewees disclosed that if land was sold by private treaty, floor areas could also be adjusted or deducted, such that companies could pay much less money. But this was almost impossible by open TAL. While those under-the-table deals largely reduce the development cost for developers, changing the purposes of land also helps obtain land that is impossible to take in its original category. For instance, developers might predict or learn that a locality has been scheduled in the urban construction plans. They would lobby the government to reclaim that land and change the category from agriculture or industries into land for housing so that they could conduct real estate development and make huge profits.

The State Council encouraged local governments to use open TAL for land transaction as early as 1999. But most places just ignored the order of the central government by claiming that conditions for open trade were not satisfied yet and continued their practices. In 2002, the Ministry of Land and Resources conferred the “Regulation of Transferring Land Use Rights of State-Owned Land by Open Tender, Auction, and Listing” (hereafter referred to as “Regulations of TAL”). The regulation requires that open TAL must be used in land use rights transactions for

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198 Interview notes, IN07/09/2007/TJ.
profit-making, including commercial, tourism, entertainment use, and commodity housing since
July 1st 2002. It essentially bans transactions by private treaty of land for above purposes.\textsuperscript{200}

This regulation demarcates the development stages of the real estate industry with its explicit
demonstration of the central’s will to propel open TAL of land use rights in China.

Yet local governments implemented the central decision willingly. Even in June 2002, after the Regulations of TAL came out, the Beijing Municipal Government sent out the famous Document No. 33. It, while making the regulations that land for commercial use should stop transferring by private treaty, granted private treaty to be kept on for some projects, such as environmental insulation area, construction projects of little townships, commercial projects that are closely related with large public projects, and projects that are approved by the government, etc.\textsuperscript{201} Document No. 33 actually put off the implementation of open trade of land and left a window for the continuance of private treaty.

Transactions by private treaty of land for commercial use did not cease nationwide until September 2004. On March 31\textsuperscript{st} 2004, the Ministry of Land and Resources together with the Ministry of Supervision sent off the \textit{Notification No. 71 about Law Enforcement and Supervision

\textsuperscript{200} “Zhaobiao Paimai Guapai Churang Guoyou Tudi Shiyongquan de Guiding” [Regulations on open TAL to sell the land use rights of state-owned land] April, 2002, Implementation since July 1\textsuperscript{st}, 2002, \url{http://www.mlr.gov.cn/zwgk/flfg/dfflfg/200504/t20050406_66761.htm}
Work on the Continuance of TAL of Land for Commercial Use. This notification emphasized the importance to strengthen the supervision of land transaction and punishment of illegal transactions. It set August 31st 2004 as the deadline for local governments to clear out all problems on land use rights caused by previous illegal transactions. It threatened that the central government would reclaim the land if problems were not handled properly. With the decline of private treaty, open TAL have been more formally practiced.

All of my interviewees feel that corruption is definitely reduced by open TAL, especially in large cities, where most information is posted online on the official website of local bureau of land management or listed in the land trade center openly. However, my interviewees also pointed out that fake TAL existed quite widely for a while and still exist today in small cities and counties. One of my interviewees, though doing business in a large municipality, said, “as far as I know, no open TAL is real. Entering the land trade center, you will find no strangers there. In fact, don’t even think about participating TAL if you are an outsider.” This observation is indeed convergent to that of the government. A supervising officer within the Ministry of Land and Resources remarked in 2007, “though explicit violation of state orders is rare in recent years, and

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203. Phone interview notes, PHIN02/12/2008/TJ, PHIN02/16/2008/JX, PHIN02/23/2008/NJ. Interviewees are all working in real estate industry as consultants or researchers, or sales.
most local governments dare not to sell land for commercial use by treaties, fake TAL still
exist.”

The main technique to maneuver in open TAL is to lift the bar of entry, such as requiring firms
to hold at least a certain amount of capital or have certain ratings, such that limited firms could
compete. Some middlemen, called “project handlers” (xiangmu jingshouren) emerged in these
years. They are hired by the real estate companies to “coordinate” the relationship with the
government and make sure that other competitors would be filtered out by the entry conditions
imposed by the government. Very often, only one or two qualified firms are left for open
competition and the winner is determined in advance. Insiders expose that the middlemen
sometimes need to invite three to four firms to compete, but they are only pretending, not
allowed to win. Sometimes, the local government might tell the competing firms to make a
deal among themselves before open TAL. The middlemen usually ask for 1% to 1.8% from
the total investment as returns and all other fees for public (government) relationship building are
also paid by the real estate developers. All of these costs will certainly be counted into the

204 “Buzhifa Jianchaju Fujuzhang Zhanpu Tan Jiaqiang Zhidu Jianshe, Fandui Tudi Fubai Wenti (部执法监察局副局长张璞谈
加强制度建设，反对土地腐败问题)” [Vice bureau director of the supervisory bureau inside the land ministry, Zhan Pu talks
about increasing legal building, anti-land corruption problems], from the Ministry of Land and Resources, October 30th, 2007,

205 “Zhongjian Zongjingli Sun Wenjie: Zhimian Jianzhuyu ‘Qianguize’ (中建总经理孙文杰：直面建筑业 “潜规则” [Manager
of China State Construction Engrg Corp. Sun Wenjie: directly facing the “informal norms” in construction sector], (CCTV: 
Juecezhe Shuo) [CCTV: Decision-Makers Speak program]

206 Phone interview notes, PHIN02/23/2008/IX, conducted in East Lansing, MI, USA, interviewee was in Jiangxi province,
China.

207 Zhu Hongjun “Fangdichan Laoban Jiemi Nadi Xu Jingong, Yougongzhang de Difang Jiyuyou Fubai Keneng”
cost of land and finally be added to the price of housing when selling to consumers.

Evident collusion in open TAL becomes dangerous as supervision and law is enforced more strictly. Fines up to twice of the conveyance fees might be charged by the economic office in the police department, if firms are found out colluding. Corruption has to find its way and to make rule-violation invisible nowadays. Some local governments merge several plots of land into a large plot, such that the land has to be sold at a price high enough that only the wealthiest firm can afford. The Ministry of Land and Resources regulates that auction and tender should be held if two or more than two firms want to buy the land and the bottom-line price of land should be kept in secret before open TAL begins (Regulations of TAL, 2002). Without open competition, it is more convenient for the local government to leak the bottom-line price to the development company. But this kind of manipulation is usually limited in small cities and counties, where large companies are few. Local governments can easily explain their tactic by the excuse that only Firm A or Firm B can offer a magnificent and beautiful project locally. My interviewee pointed out this trick does not play well in large cities, where direct government intervention in open TAL is much harder. Under current system, local governments in large cities could at most reduce various fees and taxes for a development firm. Special business-government relations might also result in provision of public goods and developmental government, like the case in
South Korea (Kang 2002). Some local governments support development companies by providing better infrastructure, like paving roads and building bridges in the outer rings of the commercial buildings, which largely raises the land value.  

Many local leaders have been caught abusing power on land management for private gain under open TAL system in recent years. The former deputy mayor of Suzhou city, Jiang Renjie, is one of them. Jiang was promoted deputy mayor in 2001 to be in charge of the sectors most ready to seek rents, including urban planning, construction, transportation, and real estate development. Many real estate developers sent bribes to cultivate connections with Jiang for land. During investigation, the investigators found out cash everywhere in Jiang’s apartment, even under the floorboards. And some “red envelopes” (hongbao) containing the kickbacks were not open yet. Impossible to count the total amount of cash in a short time onsite, investigators weighed the bills, 23 kilograms (over 50 lbs) in total. Media reports reveal later that the amount ranges from Y90 mil to Y0.14 bil. Reportedly, Jiang had probably collected the highest sums of money by corruption in his province, Jiangsu, among all the municipal officials at prefecture level since 1949.

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208 Phone interview notes, PHIN02/16/2008/JX, interview conducted in East Lansing, MI, USA, and interviewee was in Jiangxi, China.
Same as in many corruption cases that spouses, offspring, and close relatives are the most prepared to benefit from the public power held by an official, immediately following Jiang’s promotion, his 23-years-old son, Jiang Yi, was hired by an auction firm named “Fortune Sea (fuhai)”, as the general manager. Specializing in land auction, this firm nearly monopolized the business in Suzhou. In the first year that the firm was established, auction turnover had reached Y0.81 billion, while the total turnover of land auction in Suzhou was only about Y1 billion and the turnover of all auction businesses was about Y2 billion. The annual income of Fortune Sea was estimated at least Y40 mil.

One case shows how Jiang and his son collaborated. A real estate developer learned that the Suzhou Industrial Park was planning to construct light rail transit very soon, which would raise the value of the adjacent land. He persuaded Jiang to utilize his power and to redefine the purpose of this land from agriculture to land for real estate development. Jiang then gave the land to his son for auction. The businessman, Jiang, and his son had actually reached an agreement so that the land would be sold at a price far lower than the market price and the two parties would share the extra profits in ratios. Unexpectedly, the railway project was suspended, which caused the land price falling down and the developer was unable to obtain the original high profits. The Jiang family however insisted on getting their share of profits as initially agreed. The developer
was thus forced to report Jiang Renjie to the anticorruption organizations.\footnote{210 “Suzhou Fushizhang Jiang Renjie Luoma Neimu, Qizi Erzi Yebeizhua, She’an Jin’e Shangyi (苏州副市长姜人杰落马内幕，妻子儿子也被抓，涉案金额上亿)” [Inside information about the downfall of the vice mayor of Suzhou city Jiang Renjie; His wife and son were also arrested; Stakes up to 0.1 billion RMB], Chongqing Wanbao [Chongqing Evening Post], November 16th, 2004, http://www.cqwb.com.cn/webnews/htm/2004/11/16/87796.shtml} After Jiang and his son were captured, many officials heading the departments of urban construction and transportation were also investigated for corruption; some were dismissed from offices.\footnote{211 “Suzhoushi Fushizhang Jiang Renjie Tanwu Yiyiyuan, Jiacang 23 Gongjin Chaopiao(苏州市副市长姜人杰贪污一亿元 藏23公斤钞票)”, [Vice mayor of Suzhou Jiang Renjie took bribes up to Y0.1 bil., Hiding 23kg. bills at home] Fazhi Wanbao [Rule of Law Evening Post], January 13th, 2005, from Nanfangwang [Southern.com], http://www.southcn.com/news/china/cnzf/zfdadu/200501130662.htm, accessed Feb 7th, 2008}

Since open TAL of commercial land becomes more and more formalized, local governments and development companies start to look for loopholes outside the system. Two methods are used to lower the cost of land acquisition. One is to enclose land for industrial use by private treaty at low prices and then transform it to commercial use later. It saved a large amount of extra cost caused by open bidding. The other is to lease land so as to avoid the expensive land conveyance fees. More about these methods will be discussed later in the section on the role of local governors.

At this stage, we could conclude a relatively clear path how the development companies have adapted to and taken advantages of the changing policies of land management through corruption. The main purpose of the development companies is to lower the cost of land acquisition. Their first choice is probably to acquire free land by administrative approval, utilizing the “dual tracks”
of land allocation. As the market distribution of land expands, companies seek low prices by reaching private treaty with local government. While private treaty for transaction of commercial land was gradually banned by the central government, some companies tried to collude with each other in fake TAL. As open TAL are regularly practiced, land leasing and enclosing industry land for commercial use becomes new means to evade the high conveyance fees of land. In general, despite the central regulation on land market, corruption can always find its way to survive, though the room is seemingly narrowing.

Corruption in land acquisition is mainly caused by the government power of pricing on land, the most influential factor of the interests of the real estate developers. A president of a real estate company of Hainan province said, “no matter land is sold by private treaty or open transfers, the basic price is totally determined by the pen in the leader’s hand sometimes…. If local officials could bring me Y50 mil profits by lowering the prices of land, I would like to take out Y20 mil or even more as returns for them.” He admitted, since he entered this industry in 1992, he always paid his “tribute” to the local government no matter doing business in Shenzhen, Guangzhou, or Hainan. An interviewee talked based on his own experience, “The prior consideration for us is to have strong financial backup and great government relations. Usually if we can get the support from the local department of land administration, we are able to have a low price of

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Nevertheless, as land supply is more and more institutionalized with the establishment of open TAL, and private maneuver became difficult, especially in large cities; the importance of land management departments has faded a little bit. But the urban planning departments have maintained their influential role for development companies in spite of the institutionalization of the industry.  

**Urban Planning**

Local bureaus of urban planning are very influential for several reasons. First of all, they issue two permits to the companies that have acquired land—the “land for construction planning permit”, and the “construction project planning permit”. Both are so imperative to carry out a real estate project that failing to get them on time will result in delay of the whole project. To gain these permits, a project should meet several construction standards set by the urban planning bureaus. Some of the criteria are quite “soft” and ambiguous, largely dependent on the preferences of the person in charge, for example, the design and the color of a building. Many bribes sent by the entrepreneurs are in fact just to assure files will be processed in time or faster and the construction scheme will not be questioned because of ambiguous reasons. 

Secondly, insiders of the real estate industry points out urban planning bureaus control three
important standards determining the profits of a project, including plot ratio, construction density, and afforest rate. Among the three, the “plot ratio” (rongjilv) of land in a certain locality matters the most. Plot ratio, is also called “Floor Area Ratio (FAR)”, or “Floor Space Index (FSI)”. It is the ratio of the total floor area of buildings on a certain location to the size of the land of that location, or the limit imposed on such a ratio. By formula:

Plot Ratio (or FAR, or FSI) = (Total covered area on all floors of all buildings on a certain plot)/(Area of the plot)

For instance, if the area of land is 10,000 sq. meters, with a plot ratio of 3, a developer can build 30,000 sq. meters housing on this land. If the total area of each floor is the same in a building, plot ratio will increase with the number of floors.

Plot ratio aims at limiting the volume of construction and protecting the residential environment in a certain area. Usually, before land transfers, plot ratio of the land is already decided by the government. But investors always want to bargain for a higher number, because one percent “error” might bring them million dollars increase in returns. A boss said, “Whether I could build 0.1 million sq. meters housing or 0.12 million sq. meters housing [on a certain plot]

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will make a huge difference to me. If I can sell a housing at Y2,000 per sq meters, an area of 10,000 more sq. meters means extra Y20 mil revenue. I would therefore like to use all means to build a good government relation.”

Commercial buildings are allowed to have higher plot ratios than residential buildings. Plot ratios of business centers usually range from 10 to 15. Therefore, a small change from 8 to 15 is linked with millions of profits behind.

Seeing the profits opportunities, some real estate developers buy land with small plot ratios at low prices, and then find connections to adjust the number higher and then sell the land at higher prices. Although prices are increased, the land is still sold hot, because buyers can make more profits with higher plot ratios of the land. The middlemen previously mentioned have also moved to a new business with the gradual institutionalization of open TAL. They help changing the plot ratio of land so as to make the land “produce” more value, utilizing their close relation with government officials.

Both the State and local governments are aware of those tricks about plot ratio in urban planning. After the central government ordered crackdown of corruption in real estate industry, local governments in provinces, such as Jiangsu, made controlling corruption on plot ratio their...
priority. They require that when evaluating a construction project, number one task is to examine whether the floor area ratio is within the permitted range; changes of the floor area ratio of a specific plot need to be avowed and to be supervised by the public. With the improvement of regulations on urban planning, largely altering plot ratio for a firm is relatively hard right now. However, for a finished construction project, point 1 or 2 percent increase of the ratio is very difficult to detect. “And government supervision highly depends on the person in charge, or actually depends on how much money we send to them,” said a developer.

Many officials in urban planning departments are disclosed taking bribes and adjust plot ratio for real estate companies. One of the examples is Hu Xing, former deputy-mayor of Kunming city in Yunnan province. Similar as Jiang Renjie in Suzhou, Hu was in charge of the work of transportation, urban planning, and real estate development in Kunming, the “spring city” of China. In January of 2007, Hu was arrested for corruption and following his downfall, a corrupt “organization” was dig out. Zeng Hua, the former head of urban planning bureau was also investigated and sentenced to prison for 13 years with ¥300,000 fines. Reportedly, he accepted bribes for tens of millions of RMB from more than ten real estate firms. Just at Zeng’s parents’

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apartment, the investigators found out Y20 million cash. He also accepted twenty luxurious apartments for free and mistresses from those firms.\textsuperscript{224} Zeng confessed on the court that after getting benefits from the real estate developers, he helped them in several ways. He raised the plot ratio for them; changed the purpose of land in urban planning, for instance, changing the non-profit project like Youth Center into commercial use like supermarket or office building. He also propelled his subordinates to speed up the approval process to save time for a firm, or to approve the unqualified firms. Actually, Hu Xing was the head of urban planning before Zeng. Zeng was appointed to that position after Hu got promotion. Ironically, the former leader of Hu Xing in the Urban Planning Bureau of Kunming, Li Zhaode, was also investigated for corruption in 2002 after he retired.\textsuperscript{225} The fact that three consecutive executives of the urban planning bureau got caught for corruption shows how deeply and easily corruption can infringe this branch of public power.

Another infamous case is about the former executive of the Bureau of Urban Planning in Qingdao, Zhang Zhiguang. In 2002, a real estate firm in Qingdao wanted to raise the plot ratio of the residential area that they were constructing. They submitted the application and got rejected.

\textsuperscript{224}“Hu Xing An Bao Fangdichan Fubailian, Yuan Kunming Guihua Juzhang Jiang Beisu (胡星案曝房产腐败链 原昆明规划局长将被诉),” \textit{Diyi Caijing Ribao} [First Finance and Economy Daily], February 9\textsuperscript{th}, 2007

\textsuperscript{225}“Sanren Guihua Juzhang Qian ‘Fu’ Hou Ji: Guihuabu Cheng Fubai Gaofaqua(三任规划局长前“腐”后继 规划部成腐败高发区) [Three Urban Planning Bureau directors were corrupt consecutively: urban planning becomes high corruption sector],” \textit{Renminwang-Jiangnan Shibao} [Peopole Net-South Yangzte River Times], May 17\textsuperscript{th}, 2007
by the Urban Planning Bureau. The next year, the general manger got close with Zhang’s cousin, Mr. Zhao, through friend’s introduction. The manager promised to Zhao that if Zhang could “take care of” the issue, they would offer Zhang Y2 mil and give part of the construction project to Zhao. A few months later, the application to raise plot ratio was granted by Zhang. As they were promised before, Zhang and Zhao got the money and the project. With the establishment of more and more lavish residential buildings, officials like Zhang Zhiguang were also enriched by the real estate developers. In only three years since he got the position, Zhang had illegally accepted RMB, US dollars, gift cards, credit cards, and laptop, etc. from 38 individuals and units for 96 times. The bribes sum up to over Y8.6 mil, which means that in average he took around Y10,000 every day in the three years. He was punished by death penalty with two-year suspension, and the media comments that the head of “planning” planned his life into prison.

Seeing so many officials in urban planning enticed by corruption, Chen Shaoze, the head of disciplinary inspection in the city of Nanjing, criticized that, “Plot ratio adjustment has created a lot of opportunities of corruption. If this problem could be solved, corruption in urban planning area could decrease by at least 1/3 to a half.”


**Group Corruption in Real Estate Industry**

Besides land administration departments and urban planning bureaus, several relatively “unnoticeable” agencies with very specific functions are also possible to grab a share from a real estate project. For instance, to get the “construction permit” from the construction bureau, a project has to first meet various requirements. It has to get approvals from, and leave records in the bureau of the civil air defense (office of civil defense), the fire department, the environmental protection bureau, the gardening and greening bureau (greening office), the transportation bureau, and the bureau of civil affairs, etc. To pre-sell or sell housings, the prices need to get approved by the price management bureau first before applying for the “sales/pre-sales permit” from the housing management bureau. And of course, when the project is complete, it will be evaluated by all related government agencies to test whether its quality has met different criteria. Figure 4.3 illustrates a simplified procedure for permits and certificates.
Figure 4.3 Simplified Steps of Permits and Certificates for a Real Estate Project

1. Land Use Rights Certificate for State-Owned Land
   (Local Land Management Bureau)

2. Planning permit to the land for construction & Planning permit to the construction project
   (Local Urban Planning Bureau)

3. Various Permits from Office of Civil Defense, Fire Department, Greening Office, Transportation Bureau, etc.

4. Construction Permit
   (Local Construction Commission or Bureau)

5. Letter of Pre-Sell/Sell Housings
   (Price Appraisal by the Price Management Bureau)

6. Permit to Pre-Sell/Sell Housings
   (Local Housing Management Bureau)

7. Quality Inspection and Quality Certificate
   (Various Government Agencies)

8. Property Right Certificate of Housing
   (Local Housing Management Bureau)

Many real estate developers believe that it is worth extra expenses to simply save some time in those departments. Otherwise, if each department delays for one or two days, the whole application procedure will take one or two months longer, which hinders the flowing back of investment. The principle to speed things up is to buy off everyone in charge, even if it means to pay the same department repeatedly. For the one who approves a project is often not the one who inspects the completed project. A real estate boss revealed that bribes sent to the low level officials handling details could range from a few thousand to tens of thousand RMB. Therefore, real estate corruption often includes group of officials in different government departments simultaneously. A case disclosed in Anqing city, Anhui province, gives such an example.

In early 2001, Hongcheng (rainbow town) Company prepared to develop a residential area called “Dayuan Xiaoqu” [Great Park in Small Neighborhood, hereafter referred to as “DX” project]. DX project was approved by the Anqing government, occupying a plot of 3,5000 sq.

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meters, partially through administrative allocation and partially by market transactions. Hence, the company should build both economical housing and commodity housing on the land. To get his money back as soon as possible, the boss, Wu Zaiqiao, decided to pre-sell the economical housing before the project completes, though he had not obtained the land use rights certificate yet. He first spent Y70,000 buying off an office head inside the price management bureau, Zhou Ende, who helped Wu settle several officers in the bureau with money and get the housing price approved. The officers also eliminated the Y100,000 fines that *Hongcheng* should pay for violation of rules. In June 2003, after retiring at the age of fifty, Zhou became the vice manager of *Hongcheng* company with a cordial invitation from Wu Zaiqiao. From then on, almost all the government connection-building by bribery had been handled by Zhou, who employed his wide personal network within the government. For several times, Zhou and Wu sent money directly to the officials’ offices in front of their subordinates. Other times, they went to the officials’ home during holidays and showed their “little kindness”.

Between 2001 and 2004, the vice director of the urban planning bureau of Anqing accepted Y100,000 bribes. In December 2003, the DX project successfully passed the completion quality test of urban planning on the meeting held by that director, although the project actually violated the regulations in several ways. In March 2004, two leaders of the civil defense office accepted
bribes of Y150,000 and Y80,000 from *Hongcheng* respectively and approved another residential project carried out by the company, though it did not meet the standards of civil defense. In March 2004, Wu and Zhou gave Y50,000 to the director of the construction commission, who reduced their compensation fees of up to Y280,000. Finally, the director of the housing management bureau reduced several fees for the DX project and urged rapidly processing the files of the project after getting Y50,000 from the company.\(^{230}\)

When investigation of the case was concluded in June 2005, 19 officials were found out involved, of whom 11 were bureau level officials. Among the 10 officials referred to legal system, 8 of them were at bureau level and one person was one level below. These officials worked in municipal construction commissions, urban planning bureau, price management bureau, office of civil defense, and housing management bureau respectively.\(^{231}\)

The Anqing case represents a common practice in the real estate industry, that is, to “please everyone in charge”. All of my interviewees noted that it is very important to keep very good relations with each one of the government agencies that are relevant, especially their leaders. “You have to maintain good relations with them just for not to be bugged by them and others


\(^{231}\)Wu Yihou, “Toushi Fangdichan Xiangmu Yunzuo Neimu Shenpi Huanjie cheng Huilu Jieidan (透视房地产项目运作内幕 审批环节成贿赂节点)”, Zhengyiwang-Jiancha Ribao [Rightness Network-Procuratorial Daily], August 15\(^{th}\), 2006
[other companies]. Of course, if you want to do something in violation of rules, you have to pay more… Usually how much benefit you give the officials depends on how much profits you can make from a project”, a businessman spoke out.  

Means to cultivate good government relations vary in different localities. In small places, it is still possible to build up relations by money. But currently more and more officials are very cautious, they will not accept sums above Y5,000. In large cities, government officials usually dare not accept bribes, particularly from large shareholding companies, because of the government campaigns of anti-bribery in business transaction as well as the relative transparency of shareholding companies. “They might at most go for dinner with those companies”, an interviewee remarked, “Indeed, the really large companies do not need to bribe government officials, for they have abundant capital.”

However, invisible bribery or “grey” corruption seems quite prevalent based on the observation of the interviewees. One of the businessmen said, “Today it is pretty stupid to send money directly to cadres. The best way to win their support is to let their family members undertake part of the construction project, to give them some sweet from the project.”

Another insider confirmed this comment, saying, “For example, giving all the business about

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windows and doors to their [officials’] relatives would be OK, not necessary to break any rules or laws. President Bush has done something similar, granting projects to his friends, right? Sometimes, even those large development companies have to share their projects with the officials in this way.”

The Role of Local Governors in Real Estate Industry

In theory, the local people’s governments should supervise all the functioning departments in managing the real estate industry. However, many of them have directly participated in or even organized real estate corruption. Wang Yan, former Laoshan District party secretary of the city of Qingdao (Shandong province), was charged for collecting bribes for 24 times from 14 individuals and units for a total amount of Y4.96 mil. In the court, he confessed frankly, “Although the real estate development procedure looks very complicated in appearance, the first-hand leader has the final say at each stage.” It partially explains why so many local administrators have embroiled in the real estate corruption.

By current land approval system, the State Council’s right of ownership of State-owned land is delegated to local people’s governments. According to Article 21 Chapter III of Land Administrative Law.

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“The overall plans for land utilization shall be examined for approval at different levels.

“The overall plans for land utilization drawn up by provinces, autonomous regions and municipalities directly under the Central Government shall be submitted to the State Council for approval.

“The overall plans for land utilization drawn up by cities, where people’s governments of provinces or autonomous regions are located and where the population is over one million, and cities earmarked by the State Council shall be examined for consent by people’s governments of the provinces or autonomous regions, before they are submitted to the State Council for approval.

“The overall plans for land utilization other than the ones mentioned in the second and third paragraph of this Article shall be submitted for approval level by level up to the people’s governments of provinces, autonomous regions and municipalities directly and the Central Government. Among these, the ones drawn up by townships (towns) may be submitted for approval to the people’s governments of the cities that are divided into districts and of the autonomous prefectures as authorized by people’s governments at the provincial level. Once an overall plan for land utilization is approved, it shall be strictly carried out.”

For instance, based on this regulation, the overall plans of land utilization of Guangzhou, the capital city of Guangdong province, should be submitted to the State Council for approval. Districts (or counties) directly under Guangzhou should first get their plans consented by the people’s government of Guangdong province before approved by the State Council. A township of Guangzhou may submit its plans to the city government of Guangzhou, as the provincial government had granted the approval right to the city government in 1998 (Document No. 483 Yue Gov).
At the same time, all of the functional departments related with real estate industry must report to the local people’s governments. By the “dual-management” in the construction and the land system, both the central Ministries and the local people’s governments are eligible to govern those local departments. The central Ministries mainly give professional guidelines to local departments, which is only a “soft power” that local departments could easily ignore. This situation is especially true for the Construction Ministry. In contrast, the local governments are much more influential, because they control the personnel issues and the financial budget of those local departments. Indeed, in 2003 the Ministry of Land and Resources tried to strengthen its power by establishing a vertical management system. But the vertical-system never really existed, because of the hard administrative power enjoyed by the local governments. Officials of land management departments have to follow the orders of local governments, even though they know some orders clearly violate the rules. The functional departments turn into the “stamping machines” to some degree.

In this way, the Central Government only oversees land utilization at macro-level, by defining the general purpose of land at national levels, setting quotas of land conversion annually, and

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239 On December 28th 2003, the National Land Management Leaders’ Conference sent off the information that the Ministry of Land and Resources was going to establish a vertical management system below the provincial level.

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定的？”[How is it regulated about the approval power of land overall utilization plan at different administrative levels?] from Pingdingshan City Land Management Bureau Website. [http://www.pdsgr.gov.cn/pdsgr/ReadNews.asp?NewsID=752, accessed March 2nd, 2008]
inspecting the implementation of plans at local levels. The exact land utilization in practice is actually controlled by the provincial, city, and county people’s governments. In other words, it is controlled by the standing committee of the local party committee that is led by the party secretary and the local governor. The leading collective make final decisions on the amount of land supply, the specific purpose of land, prices of land, transaction modes, and how much extra land to be requisitioned in different regions.

In addition, Article 26 of Chapter III of *Land Administrative Law* also requires,

“All revision of an approved overall plan for land utilization shall be subject to approval by the organ that originally approved the plan; without such approval, no change may be made in the purposes of land use as prescribed in the overall plan for land utilization….”

Therefore, many illegal or semi-legal conducts discussed in previous sections should have got consent or connivance from the local governments, primarily the top leaders, beforehand or afterward. These include land allocation, fees reductions, changes of the purpose of land (e.g. from public-use to commercial use), revision of plot ratio, and especially sale of land. These conducts are hardly realized without some kind of permission from the top leaders. For large scale land transaction, land requisition, land conversion must go through the local leader group. The bureau leaders of local departments might have the right to make small changes, for instance,

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adjusting plot ratio by 1 percent. They need to report the changes to local leaders eventually and give appropriate explanations. If they were found out making changes because of accepting bribes, they should be punished and the development company should be fined.

In reality, local governors (including the party secretaries) are the most important “friends” that businessmen want to have. “If they could approach the provincial governor, they would not look to the city mayor; if they could get close with the mayor, they would not waste the time with the district governor. The principle is that the higher [officials], the better,” explained by an interviewee. “If you had the note from the mayor, everything would become easy locally,” said by another interviewee. These words also get proved by revealed corruption cases, like the example of Wang Huaizhong in Anhui province, mentioned before. Actually, not long after Wang Huaizhong was penalized, Wang Zhaoyao, another senior official in Anhui was punished for taking bribes of more than Y30mil mainly by selling land and offices. A private entrepreneur, also a big briber in Anhui, saw many people made lots of money through land. He went to Wang Zhaoyao, the vice-provincial governor and standing member of provincial committee at that time, sending him Y380,000 and got a plot of 120 mu in a business center of Fuyang city—a prefecture of Anhui province.  

242 “Yuan Anhui Shengwei Fushuji Wang Zhaoyao Cheng Xiangzuo Tanbai Congkuan Dianxing (原安徽省委副书记王昭耀称想做坦白从宽典型)” [Former vice-provincial party secretary of Anhui Wang Zhaoyao said he wanted to be the example of Confession for Lenience], source Minzhu yu Fazhi Shibao [Democracy and Rule of Law Times], December 10th, 2006, from
Good relation with local governors is also important for company financing. A real estate project often needs large amounts of startup funds and most companies finance themselves through bank loans. Many corruption cases in bank and financial system have close correlation with real estate industry. For example, among the seven cases exposed during the investigation of the former vice-president of Hainan Branch of the Bank of China, five were related with bribery from real estate companies.\textsuperscript{243} Similar as those local land departments, local branches of state banks are greatly influenced by local governments. A local governor’s note will make millions of bank loans ready for a company, which has led to creation of some non-performing loans (NPLs).

It is estimated that 24\% of the NPLs in banks are arrear of real estate developers. The situation reminds one of the Japanese “bubble economy” in 1980s and the “Asian Financial Crisis” beginning in Thailand in 1997, both of which were caused by the over-heated real estate investment.\textsuperscript{244} Bank is not the only source of capital, if connection with local governments is strong. In Shanghai municipality, the party secretary Chen Liangyu and the district governor of Baoshan, Qin Yu, embezzled billions of social pensions to finance several development

\textsuperscript{243} Tan Zhixin An de Liangge Tezheng Ying Yinqi Zhongshi (覃志新案的两个特征应引起重视) [Two new characteristics of Tan Zhixin case should arouse attention], \textit{Rennminwang} (People’s Network), November 10\textsuperscript{th}, 2006, from \url{http://view.news.qq.com/a/20070131/000029.htm}, accessed March 3\textsuperscript{rd}, 2008

In sum, local governments have centralized many decision-making powers on land and real estate development in local area, which provides the institutional opportunities of bribe taking. Several senior officials, who were “No. 1”, “No. 2”, or “No. 3” powerful in local authorities, have been investigated because of real estate corruption. Table 4.1 lists some of them.

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<td>Zhao Liang</td>
<td>Qingdao</td>
<td>Director</td>
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<td>He Xing</td>
<td>Qingdao</td>
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<td>Shandong</td>
<td>Wang Zheng</td>
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<td>Director of Land</td>
<td>Shandong</td>
<td>Zhao Li</td>
<td>Qingdao</td>
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Table 4: High Level Local Officials Involved in Real Estate Corruption in Recent Years
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<tr>
<th>Real Estate Developers for Network Buildings</th>
<th>bureau</th>
<th>Director-General of Housing and Urban Planning</th>
<th>Party Secretary of Shandong</th>
<th>Shandong</th>
<th>Zhan Zhiang</th>
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<td>Party Secretary of Lanzhou</td>
<td>Shandong</td>
<td>Wang Yan</td>
<td>2006/02</td>
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<td>Land Allocation, Lease</td>
<td>bureau</td>
<td>Quanzhou</td>
<td>Party Secretary of Lanzhou</td>
<td>Shandong</td>
<td>Wang Yan</td>
<td>2006/02</td>
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<td>Land value-added</td>
<td>bureau</td>
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<td>bureau</td>
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<td>Vice Provincial</td>
<td>Shandong</td>
<td>Duan Shuqie</td>
<td>2006/02/10</td>
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<td>Illegal Lease of Land</td>
<td>bureau</td>
<td>Vice Provincial</td>
<td>Party Secretary of Quanzhou</td>
<td>Shandong</td>
<td>Zhang Dian</td>
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<td>Bank Loans project</td>
<td>bureau</td>
<td>Vice Provincial</td>
<td>Front Office of Quanzhou</td>
<td>Shandong</td>
<td>Zhang Dian</td>
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<td>Land Acquisition</td>
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<td>Construction Project in Coal Mine</td>
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**Source:** Full perspectives and insights into official data. For real estate companies (property investment and management, housing and social security).
Local governments also have strong incentives to support real estate investment for reasons other than private monetary benefits from bribery. Though requested by the central government to strengthen land management and to protect cultivated land, many local governors are actually more sincere proponents of real estate industry. For real estate industry could generate huge fiscal revenue to local coffer that returns from land are called the “second public finance” in many places. Extra budget and “achievement projects” also provide a short-path for local officials to meet the performance criteria in cadre evaluation. For these reasons, local governors take regional real estate development into account seriously. An interviewee said, “I have never seen any local official who does not care about real estate industry.”

Local enthusiasm for real estate development has accelerated the growth of this industry and given more room for real estate corruption. It is estimated that in the first half of 2006, the GDP growth rate is 10.9%, among which fixed investment increased for 29.8%, 4.4% higher than previous year; and real estate investment rose 24.2%, 0.7% faster than 2005. At the same time, the Ministry of Land and Resources discovered that between October 2003 and September 2004,

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246 “Yidi Shengcai (以地生财)” [Generating Money by Land], Zhongguo Gaige. Nongcunban [China Reform. Rural Version], July 2004, by Tu Ya, p.15

247 PHIN02/23/2008/NJ

248 “Tudi Xinzheng Qidong Shenpi Luxian Gaige Tudi Churangjin Chongxin Fenpei (土地新政启动 审批路线改革土地出让金重新分配)” [New land policy will start, approval line reform, land conveyance fees will be redistributed], Nanfang Zhoumo [South China Weekend], August 4th, 2006, from http://biz.163.com/06/0804/02/2NL88HGE00020QEO.html, accessed March 4th, 2008
in 15 cities and 70 districts and counties, the percentages of number and plot area of illegal land use are 63.8% and 52.8% respectively in the newly added construction land. In some places, they counted for 80% and 70% respectively, and even 90%. Since September 2004, illegal land use has kept at 60% to 90% of total land in use in some cities. It is not exaggerating to say that all serious illegal land use incidence is related with local governments.  

“Land finance (\textit{tudi caizheng})” becomes a new terminology along with the rise of the real estate industry. Many local governments have made taxes and fees of land and real estate industry their major fiscal sources. Local financial revenue includes budgetary revenue and off-budgetary revenue, as well as various funds. However, 75% of the value added taxes (VAT) have to be remitted to the Central Government under current tax-sharing system. Hence local budgetary revenue today largely relies on real estate related taxes, which include value added taxes of land, urban land use taxes, cultivated land use taxes, property taxes, and urban real estate taxes, as well as various sales taxes paid by real estate companies. Most of these taxes are collected at the stage of real estate development and investment, and not much tax is collected from individual property ownership and land transaction. The contributions of these taxes
were probably not very significant in early years. From 1993 to 2000, real estate related taxes only counted at between 3.46% and 7.23% in local fiscal revenue (Shu 2005: 41). But the real estate taxes have been more and more important in recent years.

For example in Zhejiang province, in the first season of 2005, real estate taxes increased for 55.77% in comparison to the same time of 2004 by its contribution of ¥4.447bil. For the first time, it occupied more than 20% of local fiscal revenue. By June 2004, it further increased to 21.9% of local revenue and became the No. 1 tax resource of the province. At the same time, the provincial government started to worry that the central restraining of real estate development would influence their tax revenue and the province would be outperformed by its neighbor provinces like Shandong and Jiangsu.\(^\text{251}\) It shows the high degree of financial reliance of the local government on real estate industry.

The importance as a new financial resource of land and real estate industry is evident in less wealthy provinces, too. In some inland province, the provincial tax revenue is totally drawn from real estate industry in the past years. 40% of sales taxes and 70% of corporate income taxes come from real estate industry. Some satirizes that the governments there have caught the “real

\(^{251}\) Zhong Yue, “Dichanshui Yingxiang Zhejiang Caizheng, Shengzhang Danyou Zhutu Shuizhong Zengzhangnan (地产税收影响浙江财政省长担忧主体税种增长难)” [Real estate taxes influence Zhejiang finance, Provincial governor worries that major taxes are hard to increase], *Diyi Caijing Ribao* [the First Financial and Economic Daily], August 16\(^{\text{th}}\), 2006, from [http://www.sclz-l-tax.gov.cn/Article_Show.asp?ArticleID=1018](http://www.sclz-l-tax.gov.cn/Article_Show.asp?ArticleID=1018) [Luzhou Locality Tax Bureau], accessed March 4\(^{\text{th}}\), 2008
estate dependence syndrome”. Life now is much easier for those local governments. They had no money to pay salaries before. Right now, it is not a problem anymore ever since the ascendance of real estate industry,” remarked by an interviewee. Illegal land use is seen extending to West China simultaneously. The inspection of land utilization in the year of 2005 discovered that the number and the plot area of illegal land use in some cities in East China is about 9% and 5% respectively, while they reached 6% in some cities in the West. Many unsuccessful means of development in the East, like real estate development in a full-large-scale and artificial-township-making, were also blindly copied by the western area.

Local governments are fanatic about “land finance” also because of the informal returns, like the huge revenue from land conveyance fees and other fees that are established locally. These fees are categorized into extra-budgetary or off-budgetary revenue that is mainly enjoyed by local authorities. An economist points out that these extra-budgetary revenues are out of the monitoring of the central government and local legislature, which has brought a large impetus for local governments to maximize the value of land. It is the essential reason causing the fever of real estate investment. Liu Shouying, a researcher of Rural Economic Research Department within the Development and Research Center of the State Council, explained that most local

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253 PHIN02/16/2008/JX
governments use their budgetary revenue to afford everyday expenses, and use the off-budgetary revenue to carry out economic construction and development; and their major financial resource is selling land. The Development and Research Center of the State Council found that in some county level cities, taxes directly from land and indirectly from the expansion of urbanization had counted for 40% of local budgetary revenue. The net income from land conveyance fees had formed 60% of the extra-budgetary revenue.255

Local governments hereby get more resources to pursue fast GDP growth and “achievement projects”. Many local governors regard fast urban expansion and real estate development as their achievement for a locality, including some officials arrested for real estate corruption. For example, Zhang Donglin, the former vice-mayor of Changzhou city, showed lots of pride of himself when he talked about the fast development of the city even during investigation. “In the mid 1990s, the plot area under construction in Changzhou was only 1.5 million sq meters; at the end of 1990s, it flitted to 3 million sq. meters.” 256 In fact, this kind of construction wave does help many officials accumulate “political capital” to obtain further promotion, while fattening their private pockets and benefiting development companies. Examining the career path of those


corrupt officials, we could find a number of them were promoted when they were already involved in real estate corruption. And they were only disclosed years later when corruption had embedded deeply in a local area. Nearly everyone in Table 4.1 follows this pattern.

Perhaps some officials violate rules of land management mainly to achieve fast local development rather than taking bribes. Gan Zangchun, the deputy-chief supervising officer in the Ministry of Land and Resources spoke out with a slight helplessness while he was interviewed by the CCTV.

“A big difficulty that we met in these years during inspection and law implementation is to deal with the problem of violating laws for public interests, which has got a lot of sympathy. [These officials] seemed to contribute and sacrifice a lot to local development. However, they violated laws, although they did not seek private benefits, or trade public power for money. In legal sense, they have abused their power, which is illegal. In the past years, we did punish and penalize some officials in this kind. But very soon we found that they were promoted to a higher position in another place. This is a big problem in front of us that should be solved.”

With this incentive system, local governments are members of the same interest group of the development companies. Even if “generating money by land” is disclosed, for most time the officials are just criticized publicly and land is reclaimed. It is not a big deal for local officials, some of whom even look at this kind of mistake as honor. Thus, the low cost of law-violation makes it worthwhile to put selling land their priority for officials eager to demonstrate their

achievements and get promotion. In this case, if the local governors are not participants of real estate corruption, their supervision of real estate corruption is very likely to be relaxed.

Requisitioning land on one hand and selling land on the other hand becomes the panacea for local governors to develop local economy and achieve their own political success. Some governments privately enclose land in large scale in the name of “economic and technological development district (ETDD)”. A lot of cultivated land was taken and destroyed in the feverish waves of ETDD establishment, especially in 1997. Others build villas, vacation villages, and golf course in nature protection zones and ask the urban planning departments to justify the land use by changing their plans or the categories listed in book.

A “secret weapon” during land requisition is to lower the compensation fees to decrease the cost and sell land at high prices. An investigation shows that the interests of land requisition are usually distributed like this, local governments get 20 to 30%, development companies take 40 to 50%, villages earn 25 to 30%, and peasants only get 5% to 10%. Most of the profit between the cost and the transaction prices is taken away by development companies and local

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259 There are three waves of ETDD establishment, occurring in 1992, 1997, and 2003. Many ETDD were illegally set by governments under provinces. See “Fangzhi Kaifaqu Weifa Quandi de Xinsikao” [New Thoughts to Prevent Illegal Land enclosure by ETDD], by Zhang Pu, Li Xiaowen, (Law Implementation and Inspection Bureau of the Ministry of Land and Resources), China Land, No.12, 2007, p. 15
governments. As for the slim compensation for peasants, it is frequently owed, embezzled, or suspended in many places. A village party secretary in Shandong province said, “Compensation fees for land requisition in our village almost never come to us in time.” For some construction projects, especially the state or regional projects of importance, governments often utilize the “provincial/ministry agreement” and set a price as the compensation standard in order to save investment funding. For instance, in the projects of the Zhangpu Airport of Fujian province in 1999 and the Sichuan 318 National Highway in 2001, the compensation fees were significantly lower than the lowest national standards. In the other 12 state projects, like Jing-Zhu Highway and Jing-Fu Highway, the Ministry of Land and Resources found that compensation fees only counted for 3-5% of the overall investment in average. In cities of Hangzhou, Hefei, Ha’erbin, and Nanning, government revenues from various fees and taxes took over 60% of the land cost, and compensation fees only occupied 30 to 40%.  

While local governments get richer from the hectic business of land selling, great amount of land conveyance fees are sacrificed. In 2005, the conveyance fees of all the newly added construction land across the country should be Y76.3 billion. However, the real income of the central and local governments only summed up to Y21.45 billion, and the portion for central

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government was about Y7 billion. In other words, nearly Y55 billion was missing. An officer of the Ministry of Land and Resources explained that a main reason behind this is regional vicious competition. Local governments employ all means to lower land prices so as to attract investment.  

Although currently open TAL is relatively strictly followed for commercial land, land for industry can continue to be transferred by private treaty. The State Council has made several laws and rules to regulate the transaction by private treaty, from the Urban Real Estate Management Law in 1995, to rules of lowest price of selling land for industrial use by private treaty in 2001, 2003, and 2004. The Criminal Law also writes that illegal land selling at very low prices could be sentenced to prison for 3 to 7 years. But the officer of land ministry revealed honestly,

“So far only one third of provinces have set and publicized the lowest price of private treaty, one third of them are still discussing on this issue, and another one third provinces have not acted on this problem at all,”

He further expressed,

“Many local governments are anxious that publication of lowest prices or practicing open TAL will hurt their attraction of investment and local economic development. Many places are still waiting and seeing others. Several local governors require the lowest prices in their localities not to exceed that of their neighbors. More seriously,

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262 Luo Tao, Xinzeng Jianshe Yongdi Shiyongfei Yinian Liushi Jin 550 Yiyuan (新增建设用地使用费一年流失近 550 亿元)”, [Newly added construction land lost income for nearly Y55 billion a year], Economic Information Daily, September 22nd, 2006, p.6

263 State Document No. 15 (2001), No. 21 (2003), and No. 28 (2004)
some local authorities, though not violating laws in appearance, give rebate to companies to attract investment, which is the same as selling land at low price in essence.”

Land supply for industrial use is very huge and keeps increasing rapidly. Since 2004, land supply for industrial use has taken 43% to 60%, even 80%, over the total supply of all construction land, higher than land for real estate and other types. The vicious competition has also caused repeated construction of inferior productivities and land wasting.264

Large enterprises are major targets that local governments compete for. They have big leverage in negotiations with local governments. Once they show the willingness to invest a lot, local governments would immediately dedicate large areas of land cheaply. For large enterprises can make great contributions to local GDP, taxes, and employment. Reportedly, Haier—a famous household electronics manufacturer of China—has five large industrial parks in Qingdao, whose land area is about 4734 mu. Midea—a large private shareholding enterprise in Guangdong province—has ten production bases, which occupies 7 million sq meters. Yet, the land allocated to those large enterprises is used inefficiently that the plot ratio is extremely low, only 0.25 for some, while industrial land plot ratio in U.S. and Europe is usually controlled at 2.0.265

264 Remarks of the Ministry officer and above information all from “新增建设用地使用费一年流失近 550 亿元” by Luo Tao, Economic Information Daily, September 22nd, 2006, p.6. Also refers to “Ye Tan Gongye Yongdi Zhao Paigua” [Also Talking about TAL of Industry Land], by Zhou Youxin (Zhejiang Province Taizhou City Bureau of Land Management, Huangyan Branch), Guotu Ziyyuan [Land and Resources] 2007 No. 3, p.30

Indeed many enterprises accumulated their initial capital by enclosure industrial land at low prices. They lease the spare space to other companies, or divide the land into smaller plots for sale, or directly transform the excessive land into commercial use. Before open TAL turned formal, industrial land could be transformed into commercial use simply by making up the gap of conveyance fees. In this way, companies could spend millions less on land than by open TAL. The advantage is hard to gain after 2004, because this kind of land transformation must go through open TAL according to present regulations. But insiders reveal that if having government support, development companies is still able to transform land without paying a cent. For example, when a district of Shenzhen rebuilt the old town, some plants would be revised as residential buildings. The local government made a notice that land conveyance fees would be waived for buildings with a plot ratio under 4.0. Development companies could thereby transform land for free.

Other local governments, longing to attract investment, lease land to enterprises to use for duration of ten to twenty years without converting collective ownership of land to state ownership. “Lease-land-for-Requisition” (yizu daizheng) violates state law in legal sense though; its practical effects are in debate. It sacrifices a large amount of state income of land conveyance

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266 Reference to “Guowuyuan Guanyu Jiaqiang Tuti Tiaokong Youguan Wenti de Tongzhi” [State Council Notification about the Issues Related to Strengthening Land Control]
267 Zhou Tao, et. al. “Shenzhen Quandi Yundong” [Shenzhen Land Enclosure Movement], reported from Beijing and Shenzhen. May 22nd, 2006
fees and a lot of land in lease violates the overall plan of land utilization. Leasing land in fact is that the incumbent overdrafts his/her quota of land for construction by drawing resources from the next administrator. However, the evasion of compensation fees and the huge conveyance fees greatly lowers the cost of land use right, which is especially attractive to small to medium enterprises. Lease-for-requisition also saves time by avoiding the long and vexing process of obtaining permits and certificates from various government agencies as well as passing through the land approval procedure level by level. Firms and peasants both maintain the flexibility to quit or to take the land back if operation is not profitable. Some agreements to lease land are actually reached by firms and village collective privately. And since most negative effects are bear by the State or officials in next term, and most benefits are enjoyed by the current authorities, local governors in power would give acquiescence to this kind of short-term behavior.

In an investigation of a CAM in 2005, illegal land use counted for 79.3% in terms of numbers, and 70.3% in terms of area. And among them 91.3% were cultivated land rented from village collective without ownership conversion. Moreover, a large part of the land also violated the overall plan of land utilization. In a city in the West, an industrial park occupied more than

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268 Pan Yutian, “Yizu Daizheng Weihaida” [Lease-Land-for-Requisition Is Very Destructive], Ziyuan Yu Renju Huanjing [Resources Inhabitant and Environment], 2006 No.11, p.13
269 Zhang Fujun, “Guanyu Nongcun Tudi ‘Yizu Daizheng’ Wenti de Diaocha” [Investigation about ‘Lease-for-Requisition’ of Rural Land], Ziyuan Yu Renju Huanjing [Resources Inhabitant and Environment], 2007 No. 4 pp.21-23
2,000*mu* area of land, which was all leased from village collective. Leasers are more often grass-roots level authorities, whereas higher level governments are about to ignore their practice. Based on the satellite reports of land use in fifty large and medium cities, illegal use of land is found to concentrate at joints of urban and rural area, borders along important highways, and peasants’ residence. The major actors of illegal land use in these three areas are village committees and the township governments. And their main behavior is to lease land privately.

In summary, local governments, especially the top leaders have the institutional conditions to intervene in land management and real estate industry under current system of land approval and the dual-management system. It gives them numerous opportunities to involve in real estate corruption. Local leaders also have strong incentives and enthusiasm to support real estate industry, because of the abundant revenues from “land finance” and the higher promotion likelihood created by achievement projects. These short-term benefits push local governors to relax their monitoring of real estate corruption. A lot of illegal use of land is mixed with lack of supervision and direct participation of corruption by the local governors themselves. By design, the system fosters a linear relationship between real estate development and corruption.

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270 Zhang Meng, “Tudi Lianzheng Fengbao” [Land Anti-Corruption Blintz], *Guancha* [Observation], August 16th, 2006, p.37
Conclusion Remarks

This chapter gives an overview of the formal management system of land and real estate industry and shows how corruption intrudes the formal institutions. Since welfare housing allocation terminated in 1998, real estate industry has grown rapidly in China. Tracing the policy changes, it seems that the Central Government had probably experienced some debate within as well as with the real estate developers on whether government should curb the fast growth of real estate development.

Serious worry about the hectic investment and price rocketing of housing started in 2003, after the central bank reported the potential destruction on economy of real estate bubbles. In June 2003, the central bank sent off Notification about Further Strengthening the Management of Bank Loans for Real Estate Industry, often called “Document No. 121” by insiders, based on its survey of Beijing, Shanghai, Guangzhou, Hangzhou, and Wenzhou. Document 121 warned commercial banks not to provide bank loans over 70% of the total investment of a real estate project; it also increased limits on credits for consumers who wanted to buy a second housing. Out of the expectation of the Central Government, Document 121 was objected widely by both real estate developers and local commercial banks. The debate, to some degree, signifies the existence and the rise of a new interest group—the real estate developers. After two month of
controversies, the State Council sent a new document with a completely opposite tone. The policy change is regarded as a success of the interest group of the real estate industry.

Harsher management of land and real estate industry began in 2004, since then open TAL of commercial land was established and inspection of land use was strengthened. Recent regulations also require complete conveyance fees to be paid to grant “Land Use Right Certificate” and set higher standards of compensation fees in land requisition and application of bank loans for development companies.

One of the objectives of the institutionalization of land market is to cool down the feverish investment in real estate. The process has also generated several implications for real estate corruption.

First, for the real estate developers, the institutionalization of land market has actually targeted at small and medium companies and ensured the interests of the large enterprises. After the new regulations came out, small and medium development companies feel so hard to acquire land and initial funds to start development projects that 75% of them gradually disappeared. Some of them have to retreat to county level cities where open TAL is not as normalized as that in large

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274 Before “land use right certificate” could be granted with 25% conveyance fees paid, and companies could apply for bank loans while 25% of the project was constructed.
municipalities and black box maneuver is easier. Large development companies have maintained their advantages and, to some degree, earned more advantages in large cities, as they have ample capital and higher level government support from above. Yet, corruption between large companies and municipal or provincial governments has become invisible and turned from “black” to “grey”, like proffering some projects or shareholdings. And special government relations could generate more public goods, like better infrastructures, as by-products.

Secondly, the Central Government tries to clarify the power and responsibility division between the central and local governments, as well as among various functional government agencies. In general, the Central Government and local governments at higher levels, such as provincial governments and municipal governments, are expected to play a more important role as supervisors of lower level governments. They are also expected to decentralize more powers, especially powers on professional guidance, to functional local departments. However, by current land approval and dual-management system, local governments have full institutional conditions to intervene land management departments. Local authorities also have strong incentives to support real estate investment and sacrifice their monitoring of real estate corruption, because of the fiscal revenues and the promotion prospect brought by real estate development. It results in the coexistence of centralized and decentralized corruption in real estate industry. On one side,
development companies try to approach local administrators by all means. On the other side, they have to pay their tribute to every official in charge of specific issues in all relevant departments. Therefore, the volume of cost in real estate corruption is extremely high.

The question is who is going to bear the cost of real estate corruption? A quite popular view held by some scholars and the masses is that the hyperinflation of housing prices is in fact caused by real estate corruption, as mentioned at the very beginning of this chapter. Developers have transferred all of their cost of corruption to the consumers by charging “sky-high” prices. In the year of 2006, the sales prices of newly-built commercial housing increased by 6.7% in 70 medium to large cities in the first three seasons compared to that of 2005, according to the State Commission of Development and Reform (SCDR) and National Bureau of Statistics of China (NBSC). Among them, Shenzhen increased by 12.3%, Beijing 10.9%, Xiamen 10%, Chengdu 8.9%, Hohhot 8.4%, and Guangzhou 8.3%. In 2007, the same prices rose 10.6% in October compared with the same month in 2006. In particular, the prices of economical housing, regular housing, and high-standard housing increased by 3.3%, 10.9%, and 12.3% respectively. Cities, like Ningbo increased by 19.1%, Wulumuqi 18.5%, Beijing 17.8%, Beihai 17.7%, and Shenzhen

Lang Xianping, a Hong Kong economist, commented boldly that the soaring of Chinese housing prices is entirely caused by corruption. An unofficial online poll shows 88.21% of more than 36,000 people agree with the comments made by Lang. And nearly 52% of people suspects that bribes have added about 20% extra cost in real estate industry, and almost 20% people believe the cost is at around 10 to 20%, another 12% believes the cost is at 5 to 10%. In sum, over 80% people think bribes raise the cost of real estate development by 5%. Media also notices that the continuing rising momentum of housing prices could slow down a little bit only when the government starts blitzes of anticorruption campaigns. On the contrary, insiders of the industry often keep different opinions and claim the high prices are just reflection of the stringent supply-demand relation of land and housing in China.

An interesting point is that open TAL has actually transferred some of the previous...
under-the-table bribes as part of the present legal land conveyance fees. In other words, institutionalization of land market has taken out a lot of money from the private pockets of government officials and put it into the public coffer. At the same time, it is undeniable that the final transaction prices by open TAL are much higher than the bottom prices set by the government plus those bribes after several rounds of open tender among companies. “Open TAL reduces corruption, and it does push the land prices to a higher level than before”, said by an interviewee. It is kind of suggesting that the real estate corruption, especially on land acquisition, before open TAL had in fact helped stabilize the housing prices relatively low. This seems to bring back the debate of the effects of corruption on efficiency.
Chapter 5 Gauging Regional Corruption and Hypotheses Test

This chapter assesses statistically the promotion likelihood explanation to local degree of corruption proposed in Chapter 3. The empirical research is carried out in two stages. The first stage discusses appropriate measure to gauge local distribution of corruption and explores the regional variation of corruption. The second stage conducts hypotheses tests of alternative explanations to causes of corruption. The hypotheses include not only the ones that are proposed in Chapter 3, but also some others drawn from the existing explanations. Some of these hypotheses are actually complementary rather than competing against each other.

The data in use here are all at provincial level, including the index of regional corruption, which is gauged by the excessive real estate investment of each province. The advantages of subnational comparisons have been summarized by Snyder (2001) and discussed in the introduction chapter. For studies on corruption, sub units comparisons enable us to differentiate the effects of political regimes and level of economic development. In national level comparisons, most consolidated democracies are also western industrialized economies, while these factors could be better controlled within a nation. Secondly, subnational comparisons enable us to see processes such as democratization and economic reform, or institutions such as the cadre management system as shown in this research, often have varied effects across the
territorially-defined subunits under the same political system.

Real estate industry started to formally develop in China in late 1990s, and relevant data only started to appear in 1995 in statistical yearbooks for most provinces, my dataset therefore covers the short time period from 1995 to 2004. The base year of all the economic variables is 1995. GDP and GDP per capita of each year are converted by GDP growth indices and other variables are divided by the Consumer Price Indices (CPI), where value of 1995 equals to 100.

Measuring Local Degree of Corruption

Corruption by its secrecy nature and complicated forms are always hard to measure accurately. 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. The revealed corruption by the Chinese government, such as the number of cases and officials which are investigated by the procuratorates and the DICs annually, is not a good measure of actual degree of local corruption either. For revealed corruption is strongly influenced by local governments’ anticorruption willingness and effort and some random factors besides actual corruption. While creating the measure of local corruption, we want it to meet at least two requirements: 1) it should be relatively indifferent to geographical localities and not biased by geographical features. For example, Fisman and Wei (2004) 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) 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, it reflects corruption in the transportation section in particular.

Based on these two requirements, I measure potential government rent by the excessive real
estate investment (REI) in the 22 provinces, 4 CAMs, and 5 autonomous regions of ethic
minority groups. Chapter 4 has described the variety of corruption opportunities existing in the
process of real estate development. To summarize, there are three reasons supporting utilizing
excessive REI as measure of regional corruption.

First, the property right of land belongs to the state in China. All first-round land transfer and
construction projects have to be approved by the local government leader group—the party
committee—collectively. The committee is led by the party secretary and the governor.
Theoretically speaking, no single leader or a specific government agency can make decisions
unilaterally. Therefore, excessive REI measures the local government accountability as a whole.

Secondly, real estate is an industry that is rising heatedly all over China recently. The fast

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development of this industry is motivated by the central’s call for urbanization, local leaders’ pursuit of fast economic growth, and the high monetary profits in this industry. Real estate development can contribute a lot to government budgets and GDP growth in a short time period. The dataset of this research (from 1995 to 2004) shows that the REI in the preceding year is correlated with government revenue in the next year at 0.5693; with government expenditure at 0.5218; with GDP growth rate at 0.2277. Real estate development builds a shortcut for someone who wants to generate rosy performance record rapidly so as to impress his/her superiors for promotion. Allured by both the huge monetary return and the high political reward, many top executives of local administrations are big fans of REI.

Thirdly, because of the deep intervention of the government bodies in REI, corruption has embedded in this business quite deeply. It is estimated that the state asset loss from illegal land transfer has accumulated to at least Y10 billion since 1980. In some places, the government takes 20-30% of the profits from REI, the developers take 40-50%, and the peasants who are the real users of land only get 5-10%. And 95% of land is transferred with agreement at low prices; only 5% of land is sold publicly at competitive prices by tender, auction, and listing. In addition to its prevalence, real estate corruption often involves senior officials. Several provincial level

officials have been punished because of real estate corruption, including the former minister of Land and Resources Tian Fengshan, the former party secretary of Shanghai Chen Liangyu, the former vice mayor of Beijing Liu Zhihua, the former vice provincial governor of Anhui He Minxu, the former Chief Prosecutor of Tianjin People’s Procuratorate Li Baojin, and the former Party Secretary of Nanjing city Wang Wulong.\(^{283}\) Therefore, excessive REI measures degree of local government corruption both in scope and in scale.

**Generating Excessive REI**

REI is not only affected by corruption but also influenced objectively by the market and some other economic factors. To generate excessive REI, the idea is to tease out the objective determinants from REI and then use the residual as the measure of potential government rent. The logic is that if a government can get a big share from REI, it probably will sell land very actively, making REI over-supplied than the local economy can really bear. So a big amount of over-investment in REI could indicate a high possibility of potential corruption. In brief:

\[
\text{Prob}(\text{high corruption} | \text{high over-investment}) \geq \text{Prob}(\text{high corruption} | \text{low over-investment})
\]

Interviews to analysts in the industry and real estate investors show that supply of real estate investment mainly considers and is influenced at the demand side by the following economic factors: 1) Local population structure, such as the percentage urban population, since most

\(^{283}\) Ibid
peasants build their own housing in rural area. 2) Urban residents’ purchasing power, such as their disposable income, or year end per capita bank savings. 3) Urban residents’ demand on housing, which is largely determined by their current living conditions, such as per capita living space. 4) Prospect of local economy, which is often predicted by local economic structure and its preceding economic performance.  

REI data only started to appear in Chinese statistical yearbooks since 1995 and it only started to appear in Tibet statistical yearbook in 1999. My data is thus a provincial level panel data, between 1995 and 2004 and across all the 31 provincial level units. Corresponding to the factors mentioned above, I first divide provincial annual real estate investment by the total provincial urban population, so the dependent variable is per capita real estate investment (i.e. $PCREI = \frac{REI}{urban \ population}$). To make the dependent variable a continuous data and normally distributed, I use the logarithm value—$LNPCREI = \log(PCREI)$—as the final explained variable (see Figure 5.1). In the following, including the second stage hypotheses test, Logarithm value of the data, written in the form “LNvariable”, will be taken in similar circumstances.

---

284 I take out the “financing capability of a firm”, because financing is actually the supply of REI, which should be determined by the demand.
Similarly, urban residents’ purchasing power is measured by both urban household disposable income (i.e. LNINCOME) and year end per capita bank deposit (i.e. LNPCDEPOSIT) of each province. Disposable income gauges the regular wealth of a household, and bank deposit measures its ability to afford the down payment in house purchase. Correlation test below shows that the two factors are closely positively related with each other. Urban residents’ demand on housing is measured by the per capita living floor space of urban residents in the preceding year (i.e. from 1994 to 2003)—lagged per capita residential area (sq. meter) (i.e. LAGPCRAREA).

Local economic performance is measured by lagged LNGDP and former GDP annual growth rate, by going back to previous one, two, three and five years. This is because an investor might predict the general health and strength of an economy by reviewing not only one or a couple years, but very likely by retrospection of several years; and not only by looking at the overall value of the economy, but also the growth rate. I take one-year-lagged LNGDP and average GDP
of previous two, three, and five years, and then take the log value of the averaged GDP (LNAVEGDP2, LNAVEGDP3, LNAVEGDP5). The same is done for previous annual GDP growth rates (i.e. L.GDPRATE, AVEGDPRATE2, AVEGDPRATE3, and AVEGDPRATE5). Partial correlation test shows that current investment has a very significant and quite similar correlation with each of them (not shown), so I choose LNAVEGDP3 and AVEGDPRATE3 to put in final regression. Besides, local industrial structure is measured by the proportion of agricultural output in total provincial GDP--provincial annual agricultural output/provincial annual GDP (i.e. AGRATE).

I also include lagged per capita REI in the independent variables (i.e. Lagged LNPCREI). For investment is often a continued project, once started, it is likely to go on with some momentum. I control both variables of province and year and run random effects OLS (REOLS). Table 5.1 summarizes the major variables; Table 5.2 lists the partial correlation among them; Table 5.3 reports the statistical results.

285 For the point of lagged GDP, I thank Professor Edmund Malesky, Professor Victor Shih and Dr. Qi Zhang for raising this point and how to measure it to me.
Table 5.1 Summary of Major Variables on REI

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNPCREI</td>
<td>306</td>
<td>6.630154</td>
<td>1.062621</td>
<td>1.322171</td>
<td>9.493976</td>
</tr>
<tr>
<td>LNINCOME</td>
<td>310</td>
<td>8.614858</td>
<td>.3118977</td>
<td>7.953571</td>
<td>9.539189</td>
</tr>
<tr>
<td>AGRATE</td>
<td>310</td>
<td>.1887163</td>
<td>.0847731</td>
<td>.0129807</td>
<td>.4192403</td>
</tr>
<tr>
<td>LNPCDEPOSIT</td>
<td>310</td>
<td>9.973508</td>
<td>.6985402</td>
<td>7.981369</td>
<td>12.28644</td>
</tr>
<tr>
<td>LAGPCRESAREA</td>
<td>310</td>
<td>2.519692</td>
<td>.3353058</td>
<td>1.871802</td>
<td>3.294354</td>
</tr>
<tr>
<td>LNAVEGDP3</td>
<td>372</td>
<td>7.271824</td>
<td>1.086968</td>
<td>3.590051</td>
<td>9.376225</td>
</tr>
<tr>
<td>AVEGDPRATE3</td>
<td>341</td>
<td>.1104201</td>
<td>.0303544</td>
<td>.0523333</td>
<td>.2533333</td>
</tr>
</tbody>
</table>

Table 5.2 Correlation between Major Variables on REI

<table>
<thead>
<tr>
<th></th>
<th>PC</th>
<th>L.PC</th>
<th>INCOME</th>
<th>AGRATE</th>
<th>PC</th>
<th>PC’</th>
<th>GDP3</th>
<th>GD</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.LNPCREI</td>
<td>0.93</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LNINCOME</td>
<td>0.84</td>
<td>0.81</td>
<td>-0.59</td>
<td>-0.61</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGRATE</td>
<td>-0.65</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LNPCDEP’T</td>
<td>0.83</td>
<td>0.75</td>
<td>0.82</td>
<td>-0.53</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>L.PC’AREA</td>
<td>0.30</td>
<td>0.27</td>
<td>0.57</td>
<td>-0.13</td>
<td>0.40</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LNAVEGDP3</td>
<td>0.34</td>
<td>0.38</td>
<td>0.41</td>
<td>-0.40</td>
<td>0.18</td>
<td>0.15</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>AVEGDPRATE3</td>
<td>0.15</td>
<td>0.23</td>
<td>0.02</td>
<td>-0.15</td>
<td>0.05</td>
<td>-0.11</td>
<td>0.21</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Table 5.3 Random Effects OLS Regressions on per capita REI

| Variables        | Coefficient | Std. Error | t    | P>|t| | [95% Conf. Interval] |
|------------------|-------------|------------|------|-----|---------------------|
| L.LNPCREI        | .2614725*** | .0378209   | 6.91 | 0.000| .186951 .335994    |
| LNINCOME         | -.0182427   | .33432     | -0.05| 0.957| -.6769792 .6404938 |
| LNPCDEPOSIT      | .6080073*** | .0544329   | 11.17| 0.000| .5007539 .7152607  |
| AGRATE           | -3.285285***| 1.026406   | -3.20| 0.002| -5.307693 -1.262878 |
| L.PCRESAREA      | -.1873857*  | .0964165   | -1.94| 0.053| -.3773625 .0025911 |
| LNAVEGDP3        | -1.601229***| .5364568   | -2.98| 0.003| -2.658251 -.5442065|
| AVEGDPRATE3      | 2.650426**  | 1.223132   | 2.17 | 0.031| .2403945 5.060457  |

N=275
F(44, 30) = 135.94 Prob > F = 0.0000
R-squared= 0.9639 Adj R-squared=0.9568
All the variables are statistically significant (i.e. $P<0.1$) in above regression, except average household disposable income, which is probably caused by the multicollinearity between this variable and per capita bank deposit. However, the focus here is trying to explain REI by objective economic factors as much as possible, rather than to test the impact of each variable. The total fitness of the model (i.e. $R$-squared) is therefore more important than the statistical significance of each independent variable. The high $R$-squared indicates that the objective economic variables have explained the most of per capita REI. I thus predict the residuals by this regression, which is the excessive REI by definition and the dependent variable--“government rent”--in the hypotheses tests of next stage.

In particular, excessive REI is called “RENT”, and,

$$\text{RENT}_{it} = \text{Real REI}_{it} - \text{Predicted REI}_{it}$$

$\text{RENT}_{it}$ gives the annual over/under investment in real estate of each province. Real corruption is assumed to be $\text{RENT}_{it} + \epsilon$ , where $\epsilon$ is supposed to be some small noise, so $\text{RENT}_{it}$ is a good estimation of actual local corruption. Table 5.4 and 5.5 summarize the main statistics of $\text{RENT}_{it}$. A positive and high rent means excessive REI is large, which indicates potential high government corruption.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>RENT&lt;sub&gt;i_t&lt;/sub&gt;</td>
<td>275</td>
<td>8.34e-10</td>
<td>.1926963</td>
<td>-.7402243</td>
<td>.5216816</td>
</tr>
</tbody>
</table>

**By Province**

**East**

- **Beijing**: 9, Mean = -2.07e-10, Std. Dev. = .1190447, Min = -.1065124, Max = .2418175
- **Tianjin**: 9, Mean = 8.28e-10, Std. Dev. = .1058752, Min = -.2274329, Max = .1327803
- **Hebei**: 9, Mean = 2.28e-09, Std. Dev. = .1582842, Min = -.2764335, Max = .1907247
- **Liaoning**: 9, Mean = -1.86e-09, Std. Dev. = .1642906, Min = -.2012314, Max = .3004469
- **Shanghai**: 9, Mean = -2.07e-09, Std. Dev. = .2028817, Min = -.2637995, Max = .3100834
- **Jiangsu**: 9, Mean = 0, Std. Dev. = .0757001, Min = -.0893075, Max = .1343665
- **Zhejiang**: 9, Mean = -3.10e-10, Std. Dev. = .1424041, Min = -.226122, Max = .2438474
- **Fujian**: 9, Mean = 2.28e-09, Std. Dev. = .1524696, Min = -.3561128, Max = .1941355
- **Shandong**: 9, Mean = 2.15e-09, Std. Dev. = .1622922, Min = -.2672835, Max = .2857783
- **Guangdong**: 9, Mean = 8.28e-10, Std. Dev. = .1827741, Min = -.3682244, Max = .1894647

**Middle**

- **Shanxi**: 9, Mean = 1.24e-09, Std. Dev. = .1836103, Min = -.2652171, Max = .3638644
- **Jilin**: 9, Mean = -1.60e-09, Std. Dev. = .0936249, Min = -.1529989, Max = .1649813
- **Heilongjiang**: 9, Mean = 3.10e-10, Std. Dev. = .0756854, Min = -.2012314, Max = .1398677
- **Anhui**: 9, Mean = 1.03e-09, Std. Dev. = .1598911, Min = -.3097638, Max = .1915759
- **Jiangxi**: 9, Mean = 0, Std. Dev. = .3039327, Min = -.5327038, Max = .4814045
- **Henan**: 9, Mean = 1.23e-09, Std. Dev. = .1134491, Min = -.2106953, Max = .1694721
- **Hubei**: 9, Mean = 0, Std. Dev. = .2060001, Min = -.2190725, Max = .4420218
- **Hunan**: 9, Mean = -4.14e-10, Std. Dev. = .1580147, Min = -.2166371, Max = .2582958

**West**

- **Chongqing**: 9, Mean = 0, Std. Dev. = .1125492, Min = -.1768854, Max = .2004873
- **Sichuan**: 9, Mean = 5.79e-09, Std. Dev. = .4259642, Min = -.7038574, Max = .4617108
- **Guizhou**: 9, Mean = 0, Std. Dev. = .1082439, Min = -.1185894, Max = .1167902
- **Yunnan**: 9, Mean = -2.07e-10, Std. Dev. = .220356, Min = -.2914731, Max = .389041
- **Shaanxi**: 9, Mean = 1.35e-09, Std. Dev. = .1580355, Min = -.2757488, Max = .2768796
- **Gansu**: 9, Mean = 4.14e-10, Std. Dev. = .1475688, Min = -.179688, Max = .2559634
- **Qinghai**: 9, Mean = 4.97e-09, Std. Dev. = .3371935, Min = -.4132805, Max = .4906911

**West & Minority**

- **Inner Mongolia**: 9, Mean = 1.24e-09, Std. Dev. = .1498103, Min = -.3328041, Max = .1398677
- **Guangxi**: 9, Mean = 5.43e-10, Std. Dev. = .1252736, Min = -.1928559, Max = .2334183
- **Tibet**: 5, Mean = 1.01e-08, Std. Dev. = .4125417, Min = -.6156158, Max = .5216816
Regional Distribution of “Government Rent”

Close examination of the results presented in Table 5.4 and 5.5 reveals several patterns of regional distribution of “government rent”. First, the maximum RENT of every year from 1996
to 2004 all occur in the less developed areas of China, the Midwest, and most minimum RENT also occur in Midwestern provinces, except Hainan in 1999 and Fujian in 2002. While a large positive RENT indicates a greater opportunity of government corruption from real estate development, a big negative RENT could also indicate problems in government quality, including corruption. A significant negative RENT denotes a large investment shortage, and probably implies a bad investment environment. It is also possible that government officials seek bribes so much that potential investors are driven out to other localities. In addition, large investment shortage is possibly caused by hectic government land-selling and over-investment in previous time period, for example the boom and bust of real estate industry in Hainan province in the early 1990s.

Hainan separated from Guangdong province and became the southernmost province of China in 1988. After Deng Xiaoping’s South Tour in 1992 and his calling for faster economic reform, this resource-rich tropical island became a heated spot of REI. With a population size smaller than 1.6 million, the China’s smallest province suddenly saw more than 20,000 real estate development companies appearing in one year. Total REI in Hainan province arrived at Y8.7 billion in that year, accounting for half of the total provincial fixed investment. Large amounts of land were sold by the local government and 40 percent of the provincial fiscal revenue came
from real estate industry. For instance, just in Haikou municipality, the capital city of Hainan, 8 million sq. meters of land were sold and developed. The problem is that the majority of the companies, about 70%, were speculators, who just bought the land and then sold it at a higher price to others. Land prices rose rapidly from around Y100,000/mu in 1991 to more than Y6 mil/mu in 1992. Tons of millions of bank loans were swallowed into the business. The investment fever also contaminated Beihai, a municipality in Guangxi province across the strait to Hainan. To rein the economic bubble, Zhu Rongji, the vice premier at that time, announced on June 23rd 1993 that IPO (Initial Public Offering) of real estate companies were not allowed any more and bank loan entry into REI was fully controlled. The capital supply chain of many companies was ruptured because of the policy. Unable to repay their debt, the companies withdrew from the island with lots of uncompleted buildings and villas and billions of non-performing bank loans (NPL) left behind. It took the national and the local government almost ten years to deal with those so called “rotted tailed buildings” (lanweilou) and the NPLs. REI in Hainan plummeted since then and only started to recover in 2000 and to show a sign of thriving again in 2003.286

The second pattern shown by Table 5.4 is that RENT seems to vary in a relatively larger range in the Midwest area than that in the East. The standard deviations of RENT of most eastern provinces are smaller than that of all the 275 observations, except those of Shanghai and Hainan province. That is nine out of eleven (82%) provinces, whose excessive REI tends to be stable over years. Whereas, in the Midwest area, several provinces have pretty large standard deviations of RENT, such as provinces of Jiangxi, Hubei, Sichuan, Yunnan, Qinghai, Tibet, and Xinjiang. That is thirteen out of twenty (65%) provinces, whose excessive REI spreads closely to the average over years. The large variations of RENT in those provinces indicate that real REI increases or decreases fast from year to year. For example, in Tianjin and Jiangsu, per capita REI increases approximately 16% and 4.4% respectively from 2002 to 2003; while in the same year, per capita REI in Jiangxi and Hubei provinces increases around 73% and 26% respectively. Research finds that in 2005 the REI increase rate in most Midwestern provinces stayed above 25%, while that of the east coastal provinces was at 4% to 20%. Some provinces, like Yunnan, Henan, Guangxi, and Inner Mongolia have an increase rate as high as 45% to 50%.\textsuperscript{287} The super fast growth of real estate investment often involves more opportunity of corruption.

Third, larger scale over-investment or more opportunities of rent seem to gradually move from

eastern provinces inward to Central and West China over years. Figure 5.2 maps the excessive REI (RENT) across provinces in 1997, 2000, and 2003. Darker color represents higher excessive REI, and therefore higher government rent. Comparing the three maps, we can see the inward moving tendency of RENT across China over years. A RENT higher than the mean in that year for one or more standard deviations can be deemed as high. In 1996 and 1997, most “high RENT” provinces are in the East group, including Beijing, Shanghai, Zhejiang, Hainan, and Liaoning, while among the twenty Midwest provinces, only four of them have “high RENT” in 1996 and 1997, including Hubei, Gansu, Qinghai, and Guangxi. However, since 1998, all the “high RENT” provinces are in the Midwest group, except Hainan in 2003 and 2004, Hebei in 2002, and Shandong in 2004.\(^{288}\) Actually the inward moving trend of rent opportunities is consistent with the government policy adjustment analyzed in Chapter 4. The central government started to seriously control and regulate land-supply and real estate development in 1999. Land transactions have been more closely overseen for open TAL (tender, auction, and listing) in most large municipalities since the year of 2002. Illegal land transactions have to find their way in less developed area and smaller cities.

\(^{288}\) In 1998, there are three “high RENT” provinces, Chongqing, Yunnan and Qinghai. The year of 1999 sees three “high RENT” provinces, Sichuan, Yunnan, and Qinghai. “High RENT” provinces of 2000 include Anhui and Xinjiang; those of 2001 include Sichuan and Xinjiang, those of 2002 include Hebei, Shanxi, Jiangxi, Henan, and Sichuan; that of 2003 include, Jiangxi, Hainan, Sichuan, and Shaanxi, and those of 2004 include Shandong, Hunan, Hainan, Sichuan, and Tibet.
Figure 5.2 Distribution of Excessive REI in Mainland China, 1997, 2000, and 2003
In sum, excessive REI, or RENT, directly measures the over or under-investment of REI in a
direction, large scale over-investment in real estate in present or preceding time period
is an indicator of high potential of government rent-seeking. And a large proportion of the
potential is actually intentionally created by local governments, rather than just induced by
economic development. It is worth mentioning that real estate corruption is one type of
corruption, which is highly correlated with the development of economy and perhaps not a
perfect measure of the overall corruption of all kinds. As Michael Johnston notes, “in less
developed economies, dealings between traditional social groups (tribes, kinship and
patron-client networks) and government may involve much petty bribery and extortion, nepotism
and other sorts of favoritism…Increasing economic activity may not actually reduce the
incidence of these personalized kinds of corruption, but they may lose significance in the face of
more major institutionalized corruption involving emerging wealth elites.”289 Therefore, the rise
and fall of real estate corruption does not necessarily mean the increase or decline of other forms
of corruption.

However, real estate corruption is one of the major types of corruption in contemporary China
and involves several important government agencies and sectors. It performs as a good example

Waste and Abuse in Government: Causes, Consequences and Cures, Philadelphia, PA.: Institute for the Study of Human Issues,
Inc., 1986, p.21
for us to learn the relationship between corruption and market reform, economic development, and anticorruption. The changing distribution of regional corruption over years shows that rent-seeking opportunities seem to follow the track of market reform. That is, more opportunities of corruption occur first in those relatively developed areas where reform is often carried out first and faster and then gradually move to less developed areas, as reform spreads to inland. It is consistent with the prediction of many existing theories in general. Yet, we also notice several counter examples simultaneously. Some inland provinces have pretty high RENT at the same time when REI rose rapidly in east coastal provinces in late 1990s. And in the year of 2000, when the central government started to harness REI nationwide, the hectic business slowed down in some provinces but continued and even gained momentum in several other provinces. Therefore, further theoretical exploration on causes of corruption is needed, especially from aspects other than economic reform.

**Hypotheses and Methodology**

This section draws alternative hypotheses from the proposed explanation and some of the existing theories, mainly from the macro-economic, political/institutional, and rational choice literature. I will discuss each hypothesis briefly and then explain how I measure it methodologically. To test the hypotheses, I construct a provincial level data set, using RENT as
the dependent variable.

**Hypothesis 0 — Null Hypothesis**: According to this hypothesis, none of the observed independent variables explain the variation in corruption. Instead, randomness or omitted variables explain this variation. The implication of this hypothesis is that corruption, as a common phenomenon in all societies, does not correlate with the economic and political institutions systematically.

**Hypothesis 1**: Officials with medium promotion likelihood are more prone to be corrupt than those with low or high promotion likelihood. According to the proposed explanation, mediocre officials believe they would have a chance to get further promotion if only some “extra advantage” can be introduced, while the laggards know their chances are nil and the rising stars often have distinct advantages that others lack.

Chapter 3 has shown that officials’ promotion likelihood is determined by three factors, 1) age and education; 2) performance in local jurisdiction, mainly measured by economic growth, and 3) personal connections with one’s superiors. I collect the biographical data of the top two provincial officials—party secretaries and provincial governors. In the ten-year sample, there are 77 party secretaries and 97 governors. Among them, 29 governors turn into party secretaries later; and one party secretary, Ruan Chongwu, concurrently holds the position of governor in
Hainan between 1995 and 1997. In sum, there are 144 provincial officials in the sample. I record these officials’ age and degree of education—as one of the indicators of officials’ promotion likelihood (i.e. Age_PartySectary and Age_Governor). As the hypothesis expects an “inverse-U” relationship between the promotion likelihood and local corruption (Figure 3.2), I add quadratic terms, $(\text{AgePS})^2$ and $(\text{AgeGOV})^2$. If the inverse-U shape exists, there should be a threshold age, call it $\text{AgeX}^*$, where $\text{RENT}$ turns from increasing to decreasing. The corresponding term is like this, $-\beta (\text{AgeX} - \text{AgeX}^*)^2$, where $\beta$ is a positive constant.

Officials’ education degrees are treated as dummy variables (i.e. EduPS and EduGOV). Edu=0, if the official’s education level is below high school, Edu=1 if high school, Edu=2 if college, Edu=3 if above college education. Officials’ local performance is measured by one year lagged annual GDP growth rate of each province (L.GDPRate).

Informal personal ties, often called “factions”, or connections (guangxi wang), are also very important determinants of the political career of Chinese officials. In spite of their importance and centrality in Chinese politics, they are extremely difficult to observe in a systematic manner. Here I measure factions based on the results of previous China studies and mainly following Victor Shih’s method and data set. Shih (2008: 66-67) sets up index focusing on possible

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290 In regression, the variables of provincial officials’ age are in natural log form.
291 I highly appreciate Professor Shih’s generosity for letting me sharing the valuable data set.
informal ties between provincial governors and party secretaries and members of the Standing Committee of the Politburo (PSC). In the data set, he codes dummy variables that record a one when a province’s party secretary or governor has shared birth, work, educational, or native ties with a member of the PSC and zero otherwise between 1978 and 2004. I use the subset of Shih’s data between the year 1995 and 2004, summing up the four different types of informal ties, and use the derivatives as the final measure of a province’s personal connections with the central party leaders (i.e. TIE). The highest score of TIE is 4, which occurs in Tianjin in 1995 and Zhejiang from 2002 to 2004; and the lowest score is 0. This variable is treated as a dummy variable, though intuitively higher score indicates closer personal connections with the PSC members.

**Hypothesis 2: “lame duck” theory**: A competing hypothesis on officials’ age can be drawn from the “lame duck” theory in the rational choice literature. Prospective view can affect corruption both positively and negatively. Career concerns of politicians might constrain their current behaviors for future returns.\(^{292}\) However, if regime stability is in doubt or tenure is near the end, bribe-grabbing will increase suddenly. Corruption is more likely to occur when an official is at the edge of retirement. Studies of Chinese corruption find similar patterns, which is

often called the “59 phenomenon”, because a bureau or a prefecture level official usually retires at the age of 60. 59 becomes an age with high frequencies of corruption, as retiring officials want to capture a big sum for the “last time”.293

Applying this theory to the provincial data, we should observe a positive correlation between RENT and the age of a provincial governor or party secretary; corruption should be especially salient at ages of 64 or 65, because the formal retirement age for provincial-level officials is 65.

**Hypothesis 3: the level of market competition** is one of the major variables that economic explanations use to explain degree of corruption. However the correlation between market competition and corruption is not always clear. Dichotomous hypotheses can be drawn.

**Hypothesis 3.a: high level market competition decreases corruption**, because higher level market competition indicates less government intervention. To economists, corrupt incentives exist because state officials can intervene into the market (Rose-Ackerman 1978, 1999). Directly, government can distribute scarce resources, procure various goods and services, and determine the market prices. Indirectly, the government imposes regulations, levies, taxes, and enforces laws. In the case of China, some scholars regard that corruption is mainly caused by the incompleteness of reform. Oi (1991) argues that the system has failed to remove all the sources

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293 “Liangzhong Butong de 59 sui Xianxiang” [Two Different 59 Phenomena], *Reminwang* [People’s Net], [http://past.people.com.cn/GB/guandian/30/20010811/533025.html](http://past.people.com.cn/GB/guandian/30/20010811/533025.html), August 11, 2001
of corruption inherent in the socialist planned economy while opening new opportunities for malfeasance with the addition of a partial market. Due to continued scarcity and incomplete market distribution, many important resources are often unavailable or too costly for the public and private enterprises through legitimate channels. Bribery, in this circumstance, becomes a possible way to cut across the established standards of conduct and bypass the expensive and time-consuming obstacles. If this hypothesis is true, corruption should decline where government intervention withdraws from market.

**Hypothesis 3.b: higher level market competition leads to higher degree of corruption.**

Some researcher and the practice tell the opposite of above opinion. For instance, Michael Johnston (1986: 26) points out, “As economic and technological activity accelerates, public policy benefits increase in number and scale…. [A]s domestic concentration of wealth increase, more groups, or groups with more resources, may be competing for access.” In China the prevalent corruption in some sectors is not only caused by government control, but also by the market density and the excessive demand of specific resources and opportunities, such as in the construction sector. With so many firms in each production stage of this sector, the ongoing

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projects can not create enough business opportunities for the companies and private projects are often unable to guarantee high profits. Public projects are therefore competed intensely, because of their higher rewards ensured by the government investments. Similar situations exist in several other sectors, like health care and financial industry. A lot of corrupt transactions, especially bribery, are driven by market competition among firms aiming at the scarce resources. By this hypothesis, degree of corruption is lower in places where market competition is less fierce.

I measure the level of market competition by the output proportion of non-SOEs out of total industrial output (NONSOE). Non-SOEs include collective enterprises, state holding-shares enterprises, private enterprises, and Hong Kong, Macau, Taiwan and foreign invested enterprises. These are the more competitive economic engines in today’s China. If proportion of these enterprises is high, market competition is relatively high.

**Hypothesis 4: Fiscal decentralization leads to more corruption.** The effects on corruption of decentralization of government activities are in debate. While cross-country empirical tests by Fisman and Gatti (2000) suggest a strong negative correlation between fiscal decentralization in government expenditure and corruption, theoretical literature makes ambiguous predictions
about the relationship between the two. Those in favor of devolving powers of revenue collection and expenditure to local authorities are largely guided by the rationale that decentralization leads to greater variety in the provision of public goods, which are tailored to better suit local population (Tiebout 1956). The opposite side, such as Tanzi (1996), argues that local provision of services may prevent the realization of benefits, because local bureaucrats tend to be poorly trained and thus inefficient in delivering public goods. Brueckner (1999) claims that corruption is more likely to be a problem among local governments.

Studies on China seem to come down on the latter side that several scholars think corruption is increased by the power decentralization from the Center since the economic reform (Gong 1994, Lu 2000, Wang 2004). They argue that China’s economic reform and administrative reorganization have resulted in a diffusion of state power to local level and facilitated the proliferation of governmental agencies. “With subsystem autonomy granted, more opportunities became available for various organizational and territorial players to seek private gain (Gong 1994: 123).” For example, excessive levies and irregular charges on local populations and enterprise are often collected to raise extra-budgetary revenues or to enrich the informal “small treasures” of government agencies (Gong 1994: 123, Lu 2000: 208). Chapter 4 has also

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mentioned that many local governments sell land fanatically so as to cover their fiscal shortage, which is greatly caused by the central-local tax-sharing system.

I measure fiscal shortage by the percentage of net fiscal revenue over the total revenue (i.e. $FISREV\% = \frac{\text{fiscal revenue-fiscal expenditure}}{\text{fiscal revenue}}$). A negative value indicates a fiscal deficit for a province. A larger positive value indicates a smaller fiscal shortage for a locality. Measuring fiscal shortage in percentage instead of in net value is because of income disparity across provinces. A deficit/revenue of one million RMB might have different importance in different regions in practice. As REI is supposed to help increase local revenue, we expect RENT to be negatively correlated with fiscal shortage, and positively correlated with net revenue, or $FISREV\%$.

**Hypothesis 5: higher human capital constrains corruption:** This hypothesis is in the grey area of macro-economic explanations and political/institutional explanations. It suggests that institutions develop in response to a society’s income level and differential needs. In particular, it emphasizes the effects of human capital, arguing that growth in human capital and income cause development of institutions like electorate, courts, and other monitoring agencies challenging government abuses.\(^{297}\) If this hypothesis is accepted, we should find that RENT decreases when

human capital increases. Given the large difference of population size and education level across provinces in China, I measure human capital by the growth rate of students enrolled in higher institutions among every 10,000 people in a province (HEDURate).

**Hypothesis 6: low government transparency nurtures corruption:** The hypothesis traces back to political/institutional explanations that attribute the origin of corruption to the invisibility of government decision-making procedures. Consistent with this hypothesis, some data shows that improving citizen access to information and giving the public a greater right to criticize can reduce corruption.²⁹⁸ A common measure of government transparency is media coverage in cross-country studies. I measure government transparency by the newspaper coverage rate of urban population (i.e. NEWSCOV = copies of newspaper issued/urban population). By this hypothesis, the degree of corruption should be lower in places where media coverage is relatively higher.

**Control Variables**

Besides above independent variables, I control the following variables.

- **GDP per capita** of a province (LNPCGDP): most cross country studies have controlled this variable, and find with few exceptions that the most corrupt countries have low income levels

Per capita income level is also believed to have close association with a country’s economic and political institutions. The logarithm value of GDP per capita is used in the regression to normalize the data.

**Value of Export** of a province (LNEXPORT): Recent research has found that degree of corruption tends to be negatively correlated with the openness of an economy (Ades & Di Tella 1999, Treisman 1998, Gatti 1999, Wei 2000). The general arguments are first, more open trade policies induce greater competition which helps to reduce corruption; second, in a reverse direction, corrupt bureaucrats like to set up trade barriers to extract bribes, reducing openness as a consequence (Wei 2000: 2). Whereas, by Sachs and Warner (1995) standard of openness of an economy the Chinese economy as a whole is considered to be “closed”, as China has a socialist economic system and the state monopolizes major exports. The income from export is controlled here not so much as a measure of the openness of a provincial economy, but more as an alternative source of GDP growth other than REI. Provinces with higher export incomes have more avenues to realize fast economic growth, and therefore probably less dependent on real estate industry to improve the general performance. Annual export value is converted from US

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dollos to RMB by the exchange rate in that year, though China has a fixed exchange rate that is kept quite stable between 1995 and 2004.

-Law Enforcement: degree of corruption might be influenced by law enforcement, if anticorruption measures are deterrent. There are two available candidates as measures of law enforcement according to existing research. One is used by Wedeman (2003), who uses per capita government expenditure on public security, the procuratorate, and the people’s courts (LNPCLWNC) to gauge the physical resources invested in law enforcement of a local government. The other is used by Zhan (2002), who uses the percentage of government expenditure in this category over the total fiscal expenses of a provincial government (LWNFC%). Chapter 2 has shown how much money that a local government appropriates to the anticorruption agencies is not only determined by the fiscal budget but also by its sincerity and willingness to control corruption. Comparing the two measures, the first one might be more like an exogenous measure, that takes the fiscal expenses as given and see whether the physical resources on anticorruption are deterrent to corruption. While the second measure, to some degree, gauges how much a local government values the importance of anticorruption. More weights, though not necessary the net expenses, might be given to the law enforcement agencies, if more importance is stressed on anticorruption. The two measures are closely correlated at
0.2606, but not always grow at the same time. In other words, a relatively larger amount expense on law enforcement does not necessarily mean higher weights are attached to it. In regression, I use both measures as control of law enforcement.

**Characteristics of provinces:** I also control the administrative type of a province. I create two dummy variables, the first is CAM, CAM=1 if the administrative type is Centrally Administered Municipalities, that is Beijing, Tianjin, Shanghai, and Chongqing. The other is MINORITY, MINORITY=1 if the province is ethnic minority autonomous region, including Inner Mongolia, Ningxia, Guangxi, Tibet, and Xinjiang. Otherwise, the dummy variables are zero.

I control both province and year and run random effects OLS (REOLS) regression, AR(1), and REGLS. GLS is utilized due to autocorrelation and heteroskedasticity. Table 5.6 summarizes the major independent and control variables; Table 5.7 presents the correlation between RENT and the independent variables; and Table 5.8 reports the regression results. The regression equation is as follows:

$$\text{RENT}_t = \text{constant} + \beta_1 \text{LNPSAGE}_t + \beta_2 (\text{LNPSAGE}_t)^2 + \beta_3 \text{LNGAGE}_t + \beta_4 (\text{LNGAGE}_t)^2 + \beta_5 \text{PSEDU}_t + \beta_6 \text{GEDU}_t + \beta_7 \text{TIE}_t + \beta_8 \text{NONSOE}_t + \beta_9 \text{FISDEF}_t + \beta_{10} \text{HEDURATE}_t + \beta_{11} \text{NEWSCOV}_t + \beta_{12} \text{LNPCGDP}_t + \beta_{13} \text{LNEXPORT}_t + \beta_{14} \text{LNPCLWNFC}_t + \beta_{15} \text{LWNFC%}_t + \beta_{16} \text{CAM}_t + \beta_{17} \text{MINORITY}_t + \beta_{18} \text{Province}_t + \beta_{19} \text{Year}_t + \epsilon_t$$
Table 5.6 Summary of Major Independent and Control Variables of RENT

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<th>Max</th>
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| LYNENG | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | RENT | REN...
Table 5.8 Impacts of Independent Variables on RENT

<table>
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<tr>
<th>Variables</th>
<th>REOLS Coefficient</th>
<th>REOLS_Robust Std. Dev. Coefficient</th>
<th>β – Coeff.</th>
<th>GLS_AR1 Coefficient</th>
<th>GLS_HETERO Coefficient</th>
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<td>23.87034*</td>
<td>24.9675*</td>
<td>10.69*</td>
<td>21.30938*</td>
<td>30.4022***</td>
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<tr>
<td>(Std. Err.)</td>
<td>(12.91)</td>
<td>(13.91)</td>
<td></td>
<td>(12.30)</td>
<td>(10.78)</td>
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<td>(AgeGOV)^2</td>
<td>-2.926533*</td>
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<tr>
<td></td>
<td>(1.61)</td>
<td>(1.73)</td>
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<td>Coefficient 3</td>
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<td>-.43*</td>
<td>-.4354**</td>
<td>-.5167***</td>
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<td>(.13)</td>
<td>(.18)</td>
<td>(.15)</td>
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<td>YEAR_2002</td>
<td>-.4002**</td>
<td>-.4648***</td>
<td></td>
<td></td>
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<td></td>
<td>(.20)</td>
<td>(.17)</td>
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<tr>
<td>YEAR_2003</td>
<td></td>
<td>-.4752**</td>
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<td></td>
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<td>(.20)</td>
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<td>YEAR_2004</td>
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<td>-.4286*</td>
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<td></td>
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<td>(.22)</td>
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<td>Constant</td>
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<td>-136.934**</td>
<td>-102.327***</td>
<td>-138.594***</td>
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<tr>
<td></td>
<td>(49.98)</td>
<td>(54.25)</td>
<td>(46.63358)</td>
<td>(39.90)</td>
<td></td>
</tr>
<tr>
<td>Obs.</td>
<td>267</td>
<td>265</td>
<td>265</td>
<td>265</td>
<td></td>
</tr>
</tbody>
</table>
Prob>F = 0.0665  Prob>F = 0.0843
Prob>chi² = 0.0000  Prob>chi² = 0.0000
R² = 0.2530  R² = 0.2663
Log Likelihood = 146.3489  Log likelihood = 180.0859
Ad. R² = 0.07  AR(1) ρ = 0.2127

Note: a. ***P<0.01, **0.05>P>0.01, *0.1>P>0.05
b. Wooldridge test for autocorrelation in panel data, H₀: no first-order autocorrelation
   F(1, 30) = 52.733, Prob > F = 0.0000
c. Likelihood-ratio test for heteroskedasticity in panel data, H₀: no heteroskedasticity
   LR chi²(30) = 93.48, Prob > chi² = 0.0000
d. P>|t|=0.103

Some extremely low values of RENT are excluded from the regression dataset, which are listed in Table 5.8. These are the lowest values of RENT in the whole dataset, and all of them are excluded in the basic REOLS regression. RENT No.3 to No. 8 are excluded in the last three regressions. Some of the lowest values are caused by the over-investment in previous time periods, for example Sichuan in 2003 (No. 3), Qinghai in 1997 (No.4), Hainan in 1999 (No.6), and Jiangxi in 2004 (No. 8). Significant “high RENT” can be detected in the previous year or couple of years in these provinces. Hence, they are not outliers of the dataset; instead, they are explained by the independent variables through their lagged values.

RENT of Sichuan in 1997 and 1998, the lowest values of RENT in the two years respectively, are excluded from the basic REOLS for the fitness of the whole model and statistical significance of the coefficients that are needed in hypotheses test. In the regression including the

---

300 Because other variables have missing data, the total N in the last three regressions turns to be smaller than that of the first one.
two points, explanatory variables of governors’ age give the same direction as in current basic regression, but without statistical significance (result not shown). It is probably caused by the lack of control variables in the simple regression. All other variables actually generate similar results as in the current regression, except that provinces with a TIE of “4” also have a relatively significant positive impact on RENT (0.05<P<0.1). Later regressions with RENT No.1 and No.2 show that when more control variables are added, the two very low values do not drive away the general shape of the model anymore.

The two low RENT of Xinjiang in 1998 and Tibet in 2003 are unexplainable by the model currently. They are the real outliers. However, as mentioned before, extremely negative excessive REI might indicate a bad investment environment. Xinjiang and Tibet, these two westernmost provinces are perhaps in this category.

Table 5.9 Excluded Data from Regressions.

<table>
<thead>
<tr>
<th>No.</th>
<th>Province</th>
<th>Year</th>
<th>RENT</th>
<th>Age_ Party Secretary</th>
<th>Age_ Governor</th>
</tr>
</thead>
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<tr>
<td>1</td>
<td>Sichuan</td>
<td>1997</td>
<td>-.4336737*</td>
<td>60</td>
<td>63</td>
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<tr>
<td>2</td>
<td>Sichuan</td>
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<td>-.5002643*</td>
<td>61</td>
<td>64</td>
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<td>3</td>
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<td>-.7038574*</td>
<td>58</td>
<td>58</td>
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<tr>
<td>4</td>
<td>Qinghai</td>
<td>1997</td>
<td>-.4132805</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td>5</td>
<td>Xinjiang</td>
<td>1998</td>
<td>-.4731036</td>
<td>56</td>
<td>54</td>
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<tr>
<td>6</td>
<td>Hainan</td>
<td>1999</td>
<td>-.7402243*</td>
<td>55</td>
<td>53</td>
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<tr>
<td>7</td>
<td>Tibet</td>
<td>2003</td>
<td>-.6156158*</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>8</td>
<td>Jiangxi</td>
<td>2004</td>
<td>-.5327038*</td>
<td>62</td>
<td>57</td>
</tr>
</tbody>
</table>

Note: * The lowest value of the year
Findings and Discussion

Table 5.7 reveals some striking patterns that several variables have statistically significant coefficients. Results in column one is generated by the basic REOLS model, which only tests the proposed hypotheses, the effects of officials’ promotion likelihood on local corruption, with local GDP per capita, basic provincial characteristics, variables of province and year controlled. The second model is REOLS with robust standard deviation, adding in the variables of alternative hypotheses. This model also reports Beta coefficients, whose standard deviations are “one” for all the variables for the convenience of impacts comparison. The third model is GLS with one-order autocorrelation correction (AR1), as Wooldridge test shows that the panel data has autocorrelation. The last model is GLS with correction of heteroskedasticity (GLS_Hetero). I will discuss the findings in sequence of the hypotheses drawn in the above section.

Promotion Likelihood

Provincial officials’ promotion Likelihood is expected to have an “inverse-U” relationship with RENT by Hypothesis 1. It is measured in three aspects, provincial officials’ age and degree of education, local performance, and their informal personal ties with the members of PSC. As results of education, performance, and TIE are more straightforward than officials’ age, let me discuss these three variables first.
Among the 144 provincial officials, there are 77 party secretaries and 97 provincial governors. The 30 overlapping officials are either promoted from governor to party secretary or once held the two posts concurrently. Among the 77 party secretaries, 56 are college educated (72.7%), and 14 have master degrees or above. At the same time, among the 97 governors, 78 are college educated (80.4%), and 17 hold graduate degrees. Since the large majority of provincial officials are college educated, this group can be deemed as mediocre in terms of education. According to the hypothesis, this group should have the strongest incentive to engage in corruption for promotion purpose. This nonlinear effect is shown to be more significant for provincial governors than for party secretaries statistically. All of the four regression models show the impact of a governor’s education level is significant and positive upon RENT when he/she has a college degree. The impact of graduate degree for a governor is second to that of college degree. Though the graduate degree of governors is statistically significant in three of the four models, its coefficients are all smaller than those of college degree in the three regressions.

Actually, if coding officials’ education level by the number of years that they get education and thereby treated as a continuous variable, the result is similar as above. The regression indicates that RENT tends to be the highest when governors have 16 to 17 years of education.
(regression not shown). In other words, officials with college or lower level graduate degrees are most likely to be involved in corruption.

As for party secretaries, effects of different degrees of education on RENT do not show any significant pattern in the regressions, except that in the basic REOLS model, effects of high school education is statistically significant at 0.05 level. The insignificance of education of the party secretaries could be caused by two reasons. The first is the relatively smaller sample size of the party secretaries. Their education degrees is lack of variations that most officials are college educated and both the highest and the lowest RENT occur in this category. However, the provincial governors’ degrees of education actually vary less than those of the party secretaries. Hence, the insignificance of party secretaries’ education should have other reasons.

It is likely that education is a relatively less important factor for promotion for party secretaries than for provincial governors. For a party secretary, to be promoted into the Center, what count more are perhaps their performance, age, and personal connections with the PSC members, rather than degree of education. If we examine the reality more closely, we can find that a large group of provincial officials earned their graduate degrees while serving an upper-middle level (zhonggao ceng) position in government, such as a deputy-mayor of a municipality. Many of them were actually selected by upper level governments and sent to
universities or the Party schools for further education. These officials are usually regarded as the reservists on the nomenklatura for future promotion. A number of them after earning the graduate degree are indeed promoted to positions at provincial level later, like a vice provincial or provincial governor. On the contrary, we seldom see provincial governors selected to get graduate level education to be reserved for promotion to higher offices. This implies degree of education is very much a prerequisite for an official to be promoted from lower level positions to provincial level. For officials at provincial level, the advantage of a graduate degree over a college degree is very slim in terms of promotion. Therefore, education level has insignificant impact upon RENT for party secretaries.

--Economic Performance

Economic performance is measured by one year lagged GDP growth rate. It is shown to be significantly negatively (p<0.1) correlated with RENT by Models 2, 3 and 4. Holding other factors constant, provinces with better economic performance are more likely to have lower degree of corruption. Provinces where economy grows relatively slower than that of other provinces with similar conditions tend to resort more on real estate development in the next year to catch up, which creates more opportunities of corruption. This is consistent with the analysis

in Chapter 3 that more quantified promotion criteria has indeed created more pressure for local officials to fulfill the targets assigned by higher governments. The mounting pressure also pushes some officials to utilize irregular measures.

--Personal Ties

As for informal personal ties, results of the four models are very similar to each other. Provinces where provincial officials relate with a member of the PSC in two or three of the four ways, i.e. birth place, work experience, education, or native place, significantly have higher RENT. Provinces where officials link with PSC members by none of or only one of the four ties or all of the four ties simultaneously tend to have lower RENT. This is consistent with hypothesis 1, which predicts promotion likelihood has an inverse-U relationship with local degree of corruption.

As previously discussed, personal connections are crucial for promotion in Chinese political arena. Here, officials having no personal ties or only one kind of personal tie with PSC members apparently have lower promotion likelihood than those with more ties. At the other end of the spectrum, officials tie with PSC members in all four different ways, are usually seen as the loyalists and enjoy the highest prospect of promotion. Those with two or three types of ties are therefore mediocre candidates. They might effectively increase their promotion likelihood if they
could cultivate a stronger tie with top officials. This is also probably why the dummy variable “TIE” has a larger coefficient when it equals to 3 than the case when it equals to 2. Officials who already have more connections with their superiors would be easier to earn more trust from their leaders. For they should have more channels and more opportunities to approach the top officials; and they usually have more resources to fulfill the socio-economic targets assigned by above, such as bank loans (Shih 2008).

--Age of Provincial Official

The effects of provincial officials’ age are statistically significant in all of the four models. I approximate the inverse-U relationship between officials’ age and RENT by quadratic function $f(x)=ax^2+bx+c$, where $a$ is negative, $x$ is Age_PartySecretary (AgePS) or Age_Governor (AgeGOV), and $f(x)$ is the dependent variable RENT. The graph of $f(x)$ is a parabola opening downward. In the regressions, no matter in the case of provincial governors or party secretaries, both the first-order and the quadratic terms of age are significant. And the coefficients of the first-order terms (i.e. $b$) are negative, while those of the quadratic terms (i.e. $a$) are positive. This shows that the inverse-U relationship is significant that RENT increases along with officials’ age before and decreases after officials’ age reaches the critical point. It is clear that $f(x)$ has a unique absolute maximum value at the critical point $x^*=-b/2a$. Using the formula of $x^*$, we can get
AgePS* and AgeGOV*, the critical age of party secretary and provincial governor where RENT turns from increasing to decreasing. For instance, by the basic REOLS, we get AgeGOV*=[23.87034/2*(-2.926533)]≈59.04. The other three models generate similar results. The critical age of provincial governor is therefore 59. In the same way, we can obtain AgePS*, which is about 58. Except, by the second model AgePS* is 57.4. Hence, in general the critical age for party secretaries is around 58.

Three questions are worth more discussion about the age. First, we need to examine whether provincial officials at age 58 to 59 really face medium promotion likelihood. Second, it is puzzling why the critical age of party secretaries comes earlier than that of provincial governors? Finally, it seems the impact of age upon RENT in general is stronger for party secretaries than for governors. Specifically, the coefficients of AgePS and AgePS^2 are both more statistically significant than those of AgeGOV and AgeGOV^2. Also, the beta coefficients in Model 2 show that both with one standard deviation increase, age of party secretary will bring more impacts on RENT than age of provincial governor. The question is why?

To answer these questions, we need to know the age distribution of further promotion for provincial officials. Using the data collected by Shih, Shan and Liu, I select the provincial Party Secretaries and provincial governors from all the members of Central Committee (CC) between
1980 and 2008.\textsuperscript{302} I find out the ages that they get the next promotion and calculate the percentage of each age group among all the officials that are promoted. For the party secretaries, the most common and also the most important promotion is entry into the Politburo or the PSC at the Center. Members of Politburo, especially the PSC are the core leaders of the party-state. Some young officials selected into the Politburo or PSC are indeed reserved as candidates of future national top leaders, like the Party Secretary General. There are several other positions at the Center which are higher than those at provincial level, such as the vice chairman of the Standing Committee of the National People’s Congress (NPC) and the vice chairman of the National People’s Political Consultative Conference (NPPCC). Compared with members of Politburo, these positions are more like honorary positions for officials who are leaving the power center. For provincial governors, the position of provincial party secretary is their most likely and also the most important immediate promotion. This is because provincial party secretary is the most powerful official at local level. Also, a large percentage of provincial officials who are promoted into the center later first get promoted the provincial party secretary. In other words, to be a provincial party secretary is crucial for an official’s next promotion. I will focus on those most important promotions in the following data analysis.

In the data set, among all the CC members in 1988-2008, there are 120 provincial party

\textsuperscript{302} I thank Professor Victor Shih for letting me use the valuable data.
secretaries. 36 of them get promoted into the Politburo or those honorary central positions (i.e. 30% of 120). Among the 36 party secretaries, 28 are selected into the Politburo (i.e. 77.8% of 36), and 2 of them become members of the State Council, and the other 6 are vice chairman of the NPC or NPPCC. There are 115 provincial governors among all the CC members in 1998-2008, where 60 of them are promoted into higher positions (i.e. 52.2% of 115). Among the 60 people, 49 of them are promoted party secretary in either their original province or other provinces (i.e. 81.7% of 60); the other 11 of them are mostly moved to honorary positions at the central level. In other words, among the 120 provincial party secretaries, 28 of them can make into the Politburo during the next immediate promotion, which takes a share of 23.3% in the total. For the governors, 49 of 115 officials can move up to the highest post at provincial level, which accounts for 42.6%. It indicates making a really meaningful promotion into the Center for a party secretary is much harder than obtaining a further promotion at provincial level for a provincial governor.

Moreover, closer examination of the age distribution of promotion shows that the party secretaries face a higher age pressure than the provincial governors. That is, party secretaries have to cultivate for the next promotion at a younger age than the governors. Figure 5.3 presents the percentage of each age group among the 28 secretaries who make into the Politburo. Figure
5.4 illustrates the percentage of each age group among the 49 governors who are promoted party secretaries.

Figure 5.3 Percentage of Each Age Group among the 28 Party Secretaries Who Are Promoted to Politburo

Comparing the two figures, we can see that officials who are really young, i.e. younger than 55, and relatively young--between 56 and 57-- (the average age of party secretaries and provincial governors are 59 and 60 respectively) are apparently more favored for higher promotion in both
categories. For the party secretaries, 45% of them are promoted by the age of 57, and for the governors, 52% of them move to the post of party secretary by that age. While getting older, officials have smaller likelihood of promotion, as their age approaches the age limit of retirement. In both categories, officials above 60 only have about 30 percent of chances to get the most important promotions. Therefore, officials at the middle ages such as 58 and 59 face the medium promotion likelihood, which are also their critical ages to obtain further promotion. If not getting promoted by 58 or 59, they would have even fewer opportunities to acquire career advancement.

The age pressure is higher for party secretaries than for provincial governors. Figure 5.5 and Figure 5.6 illustrate the promotion age distribution of party secretaries and governors in different time periods administrated by different Party leaders--Deng Xiaoping (DXP), Jiang Zeming (JZM), and Hu Jintao (HJT).

Figure 5.5 Promotion Percent of Different Age Groups in Different Time Periods for Party Secretaries
Officials are divided into three groups, those younger than 55, those between 56 and 59, and those older than 60. Figure 5.5 shows that for the party secretaries, the percentage of elder officials who are at or above the age of 60 is gradually decreasing among the party secretaries that are selected into the Politburo. In DXP era, 57% party secretaries are promoted Politburo members after turning 60. The percentage decreases to 29% during ZJM era and further declines to 10% under Hu Jintao’s administration. In other words, the share of officials younger than 59 is increasing over years. However, the declining trend of proportions of elder officials and the climbing trend of younger officials for party secretaries are not as significant as that for provincial governors over years. Actually, the share of elder governors to be promoted party secretaries is increasing slightly in these years (from 18% to 33%).

This across time periods comparison of the two categories of officials shows that Deng
Xiaoping’s reform since the 1980s to “rejuvenate the party cadre corps” has brought more impacts on officials at the central level than those at local levels. For a party secretary who is younger than 59, he/she will have more than 80% likelihood to be promoted to the Politburo in the Center, but no more than 15% if older than 60 under Hu Jintao’s administration. However, if he/she was a provincial governor, this official would still have more than 30% possibility to be promoted party secretary even if older than 60. Therefore, the age pressure is higher for party secretaries if they are seeking for promotion to the central powerhouse. This explains why the critical age of party secretaries comes a little bit earlier than that of the provincial governors. It also sheds light on why the variables of age have more significant impacts upon RENT for party secretaries than for governors. In general the “inverse U” effect of Hypothesis 1 is accepted in terms of official’s age. And hereby Hypothesis 2, the “lame duck” theory which predicts a positive relationship between age and RENT is rejected.

Other Findings

--Market Competition

Model 3 and Model 4 show that market competition is positively correlated with corruption at a significant level of 0.1, when variables of EXPORT and LAW ENFORCEMENT are controlled and GLS regressions are used. However, without the control variables, the positive effect is not
significant (Model 3). Therefore, we could accept Hypothesis 3.b with some confidence and reject Hypothesis 3.a. The question is why market expansion tends to lead to more corruption rather than reduce corruption in China? A possible explanation is that market economy has developed with the existing high level of government intervention. Those emerging private enterprises and foreign invested enterprises cannot avoid interacting with and sometimes depending on the local governments, if they want to survive or get advantage in the competition. Reports expose that even large multinational companies do not have much leverage against Chinese governments. Companies like Wal-mart, Motorola, and MacDonald’s, also have to bribe local officials or cultivate good government relations to enter the market.\footnote{Cong Yaping, “Zhongguo Yao Yancheng ‘Yangfubai’” [China Needs to Punish Foreign-corruption Seriously], Xinhuawang [Xinhuanet], February 10, 2006, http://news.xinhuanet.com/comments/2006-02/10/content_4160834.htm} Increase on market competition does not necessarily alleviate corruption.

--Fiscal Decentralization

Effect of fiscal decentralization is not as clear as predicted in hypothesis 4. Only in the last regression model, fiscal shortage shows a positive correlation with RENT at a significant level of 0.1. This indicates that excessive REI might be motivated by the necessity to increase local fiscal budget and real estate investment does help to enrich local coffer. But it is not the main incentive for local governments to over-sell land and the incentive is probably not equally strong across
provinces.

--Human Capital

Human capital is measured by the growth rate of students enrolled in higher institutions per 10,000 people in a province. Higher education has a statistically significant and positive impact on RENT (p<0.01) in all of the last three regressions, so Hypothesis 5 is rejected. Instead of containing corruption, the increasing recruitment of college students has a positive effect on RENT. Why? I suspect that higher human capital needs to work through some necessary institutions to effectively constrain corruption. Currently in China, citizens do not have many channels to fight against corruption. There is no popular elections above village level, no rule of law, and no freedom of speech. Average citizens cannot participate in decision making or supervising officials. Limited voices of the citizens are heard by the government. Without institutional change, improvement of human capital can not make much difference. Therefore the variable HEDURate is more about a measurement of quantitative change of human capital instead of qualitative change of the institutions.

The positive correlation between the growth rate of students enrolled in higher institutions and REI might result from the new policy of higher education. In 1999 the central government ordered an expansion of college education. The number of college students increased from
6,430,000 in 1998 to 12, 140,000 in 2001 nationwide. To embrace the larger number of students, many colleges have expanded the campus and built more dormitories and buildings, which brings higher REI. The newly added construction projects also create more opportunities of corruption.

--Government Transparency

The effects of media supervision are insignificant and small, although the coefficients in the regressions do indicate a negative correlation between News Coverage and RENT. In some provinces, newspaper coverage is quite high. However, Chinese media is still under the control of the Party’s Propaganda Department. Without freedom of speech, many newspapers are more commercial-oriented. News reports cannot serve as critics and public supervision of the civil servants. In brief, larger newspaper coverage does not necessarily mean higher government transparency and might not reduce corruption.

--GDP per capita, Export, Law Enforcement, Provinces, and Year

Among the control variables, higher EXPORT is negatively correlated with RENT significantly (0.05>p>0.01). As explained before, the variable of EXPORT here captures more about the alternative means to generate high economic growth for a locality rather than its international

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openness of trade. Provinces with high export values tend to have less pressure to rely on real estate development solely to fulfill the performance targets assigned from above. From another perspective, this variable might also measure other opportunities of corruption in a locality, as corruption is not rare in the custom house governing import and export. The availability of other corruption occasions could reduce the incentives to create new opportunities to seek bribes, such as through real estate investment.

Effects of law enforcement are ambiguous. The per capita fiscal expenditure on law enforcement resources is shown to be significantly positively correlated with RENT. The percentage of law enforcement expenditure is negatively correlated with RENT, but not significant. This seems counter intuitive at the first glance that spending more money on anticorruption could not guarantee a lower degree of corruption and more expenditure could coexist with more corruption. In fact, this is not totally unreasonable. Chapter 2 has discussed that financially the law enforcement agencies are highly dependent on the local governments, though they are also responsible in supervising the same level government. Higher expenditure on law enforcement might lead to more fiscal dependence of those anticorruption agencies upon local government and therefore lower incentive to monitor the government. On the contrary, the percentage of law enforcement expenditure captures more about the willingness or commitment
of local government to employ serious anticorruption. A higher percentage implies that more attention is given to control of corruption. Model 4 and Model 5 demonstrate that higher commitment to anticorruption might reduce corruption, but the impact is not significant.

The control variable of YEAR shows that RENT in general is decreasing steadily since the late 1990s. This coincides with the findings in some of the international surveys mentioned in the first chapter that corruption in China is slightly lessened in recent years. Or at least, it supports the argument made at the very beginning of this research that corruption in China has not totally got out of control.

Finally, variables of local GDP per capita, the dummy variables of CAM and ethnic minority regions are not significantly correlated with RENT in any model. One possible reason is that several important characteristics related with those variables and influential on corruption have been tested through other variables, such as export, lagged GDP growth rate, higher education, etc.

**Implications and Summary**

To test the proposed hypotheses and some competing explanations about corruption, this chapter first generates an indicator of regional corruption by excessive real estate investment between 1995 and 2004. Because actual corruption is hard to measure, the indicator “RENT” aims at
capturing the potential opportunities of seeking rent for a local government. The regional
distribution of RENT over years indicates at least three patterns. First, for most of the time from
1996 to 2004, both the highest and the lowest RENT provinces are in the less developed
areas—the Midwest of China. Exceptions are Hainan and Fujian, which have the minimum
RENT in 1999 and 2002 respectively, very likely caused by previous over-investment. Secondly,
RENT in Midwest provinces also seem to vary more widely than that of eastern provinces.
Thirdly, RENT over the ten years has gradually moved from east coastal provinces to inland
provinces. Since 1998, nearly all of the relatively high RENT has occurred in Midwest provinces.
The three points together tend to show that corruption is better controlled in East China than in
Midwest area currently in terms of regional distribution.

Several conclusions can be drawn from the results of hypotheses test. First, the “inverse-U”
relationship between local officials’ promotion likelihood and local degree of corruption is
shown to be statistically significant. In particular, provincial governors with college degree
education, provincial officials linked with PSC member in two or three of the four different ties
informally, and provinces where economy grows relatively slowly are more likely to have high
RENT. More importantly, instead of the previously believed positive relationship between age
and corruption, the study finds that provincial officials at the age of 58 and 59, which is their
critical age to get further promotion, actually have the strongest incentives to be involved in
corruption. This is because if failing getting promoted, their opportunities to obtain career
advancement become nil after the age of 60. To seek power, many officials would want to
cultivate a stronger personal connection with higher officials, or try to fulfill central’s
assignments regardless of means. To illustrate the “inverse-U” effect of age, I predict RENT by
regression Model 4 by changing the age of a party secretary and a provincial governor and
holding all other factors constant simultaneously. I take Qinghai Province as the example, since
in 2004 it has the youngest party secretary (i.e. Zhao Leji, 47) and in 2000 it has the youngest
governor (i.e. Zhao Leji, 43) in the sample.

Figure 5.7 Distribution of RENT over the Age of a Party Secretary, all other factors held constant
Figure 5.8 Distribution of RENT over the Age of a Provincial Governor, all other factors held constant

Figure 5.7 and Figure 5.8 present the graph of the predicted RENT determined solely by the age of a party secretary and a governor. All other factors, such as TIE, officials education level, local GDP, etc. are controlled at the same level as that in 2004 and in 2000 in the two figures respectively.

For the party secretary, the critical age where RENT turns from increasing to decreasing is 58; as for the provincial governors, the critical age is 59. Comparison of the two figures shows that the “inverse-U” effect is stronger for party secretaries than for provincial governors. This is because entry into the Politburo at the center for a provincial party secretary is harder than getting a promotion to party secretary for a provincial governor. A much smaller group of people is selected to the Politburo and become national leaders. In the past, the center has paid more attention to young officials and reserved them as candidates for future top leaders. Therefore,
party secretaries need to strive harder if they want to break into the central leading collective. At local level this age limit for promotion is relatively relaxed, though young officials are also favored. In other words, Deng Xiaoping’s cadre juvenilization policy has been followed more closely at the central level. It results in some different incentives of provincial party secretaries and provincial governors in their career prospect as well as engagement into corruption.

Moreover, the empirical studies indicate that factors such as the increasing market competition and the higher human capital have not led to lower corruption in China as predicted by many theories based on cross-country studies. Anticorruption has some but limited and insignificant effects on constraining corruption. In general, the most important factor that has kept corruption from falling out of hand is actually the CCP’s cadre management system, or the *Nomenklatura* system. It has linked the self-interests of a group of local officials, especially those young to middle-aged officials, more closely with the central government through their career prospect. It has synchronized local officials’ short-term incentives with the long-term interests of the state. While motivating corruption at some stage, the system has also control corruption in a certain range.
Chapter 6 Corruption as Means of Promotion

A Case Study of the Office-Selling Chain in Heilongjiang Province

This chapter provides a case study of office selling to show how corruption serves as direct means of promotion for public officials. In the past decades, forms and characteristics of corruption have changed across time and localities based on the loopholes and profit opportunities created by the reform policies. In the early period of reform, prevalent “speculative and profiteering activities” centered on gaining access to scarce resources monopolized by the state and reselling on the open market. During share-holding reforms, corruption often took place in state-owned enterprises in the form of “illegal privatization of public assets”. More recently, buying-and-selling-public-offices (BSO)—the focus of this chapter—has spread in several provinces.

The objective of buying offices is to gain public power, which is a type of scarce resource. In this sense, BSO is essentially using public resources for private gain, which is similar to other forms of corruption that seeks land, bank loans, or government projects. However, while those resources could be transformed into economic profits directly, power can only generate profits

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Ting Gong, “Forms and Characteristics of China’s Corruption in the 1990s: Change with Continuity”, in Communist and Post Communist Studies, Vol. 30, No. 3 (September 1997), pp. 277-288. See also Ting Gong, The Politics of Corruption in Contemporary China: An Analysis of Policy Outcomes (Westport, Conn.: Praeger Publishers, 1994), and Wedeman, “The Intensification of Corruption in China”. They argue corruption in China does not change only in quantity but also in quality. Gong stresses more on the complex forms of corruption, e.g. “corruption is a kind of behavior which responds to political and economic changes and hence whose forms vary with social climates” (p. 278, Gong 1997).
indirectly either by selling other scarce resources or by selling more public offices. Power obtained in this way is doomed to be corrupt. BSO is, therefore, worse than ordinary corruption. It transforms public authority into a form of private property and the state hierarchy into an agglomeration of private power. In short, it de-institutionalizes the state.

Among all the office-selling cases uncovered so far, the most infamous one occurred in the province of Heilongjiang (hereafter referred to as Case-H). Heilongjiang is a large province in Northeast China with a population of more than 40,000,000. It is a major agricultural and heavy-industry base of China. Case-H involved about a hundred officials inside the province—more than fifty of them were senior ones—and millions of RMB (approximately, Y100=$12.99). A number of important political and administrative positions were up for sale. Since the case was disclosed in 2002, at least thirty officials above county-level have been legally penalized or punished by the party discipline, which was described by the public as an “earthquake” among the officials in Heilongjiang.306

This chapter attempts to explain why BSO is possible and has become serious in China through an in-depth case study. I will try to answer following questions: Why is there a large demand of public offices? Why is the supply of offices possible? How do the two sides arrive at

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306 Lu Lei, Duan Hongqing, and Wu Xiaoliang, “Chaijie Heilongjiang Maiguanlian” [Disentangling the office-selling chain in the province of Heilongjiang], in Caijing [Finance and Economy] (Beijing, China) Vol. 132 (May 2005), pp. 25-39.
a deal? Why is monitoring so ineffective in the whole process? And what are the consequences when offices are for sale? First, let me describe Case-H in broad strokes.

**Sketch of Case-H**

What distinguishes this case from other office-selling cases is the long office-selling chain from top to bottom within the provincial hierarchy. Three officials played the crucial roles in connecting the chain. Han Guizhi, a provincial leader, sold the position of the Party secretary of Suihua (a prefecture-level municipality) to Ma De, who then sold the position of the Party secretary of Suiling (a county under Suiha) to Li Gang. Li Gang later sold many offices under his jurisdiction. Thus, corruption was systemic at three different levels—the province, municipality, and county.

As the head of the chain, Han Guizhi deserves special notice. She was one of the few female senior officials in China. Born in 1943 in the capital city of Heilongjiang—Ha’erbin Han went to college in 1960 where she studied mechanical engineering. In 1965, she joined the CCP and started to work in the mountains of Daxing’an Ling. After several years of hardworking in the remote areas, she was appointed as the head of Supervision Bureau of Heilongjiang province and transferred back to Ha’erbin in 1988. Three years later, she was promoted to the vice-minister of the Department of Organization (DOO) of Heilongjiang (vice-provincial level). She became the
minister of the DOO, the general committee-member of the provincial Party committee in 1996 and vice-Party secretary of the province in 1997. In 2002, she was elected chair of the Provincial People’s Political Consultative Conference (PPPCC). Although to others, her political career seemed extremely smooth, she felt a deep sense of insecurity. Han said that she only got to the top positions after three “banian kanzhan” (eight-year war of resistance), including eight years of pursuing education, eight years of laboring in the rural areas during the Cultural Revolution, and the third eight-year of working in the mountains.\(^{307}\) It was said that Han was once a good leader, working with efficiency, courage, and care for the public. For instance, after she assumed the chair of the PPPCC, she appropriated a sum to build a public cafeteria and a sixteen-story office building for the staff. However, her life style gradually became corrupt after having been a high level official for so many years. Her private chauffer drove her to the office everyday, called the elevator, and opened the office door for her. She also often visited luxurious recreation venues.\(^{308}\)

Han’s office-selling business started after she became the minister of the provincial DOO, which is only one-level below the Central Department of Organization (CDOO). The DOO, as described in Chapter 3, is a party institution playing a major role in personnel decisions. To

\(^{307}\) The “eight-year war” refers to the anti-Japanese war in China during WWII. Here it describes the long-time hardship.

ensure “dangguan ganbu” (the party management of cadres), it is given a lot of monopolistic
control over cadre management in practice through cadre nomination, evaluation, candidate
review, and the bei’an zhidu (system of reporting for the record) to facilitate monitoring local
cadres. Since 1984, under the one-level downward system, local government has been given
more power in personnel management. Ministerial officials at the central government agencies
and provincial level officials are managed by the CDOO; the bureau-level officials (municipality
level) within ministries and in the provinces are managed by the ministerial Party group or by the
provincial Party committee.309

As the minister of the provincial DOO, Han was directly in charge of the promotion issues of
municipal level officials. She sold positions to several local officials, including Ma De, who was
a vice-municipal level official of Suihua at that time. Initially, Han did not want to promote him.
Ma sent her Y800,000 ($103,920) and finally received the promotion. Han let her sister save the
money in the bank. In 2002, when Ma was arrested, he gave up Han to the investigators, who
then found the deposit receipt. The whole office-selling chain was disclosed consequently.
Dozens of offices were sold and bought by different persons for promotion or maintaining the
positions from 1996 to 2002. Table 6.1 and Table 6.2 give a summary of main officials, the

309 Yasheng Huang, Inflation and Investment Controls in China: The Political Economy of Central-Local Relations during the
amount of money involved, and the offices for sale in Heilongjiang.

Table 6.1 Offices for sale in Heilongjiang, Province→Municipalities

<table>
<thead>
<tr>
<th>Objective of Buying Offices</th>
<th>Office Buyer</th>
<th>Office Seller</th>
<th>Promotion Path</th>
<th>Amount of Money Transacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion</td>
<td>Xu Fa</td>
<td>Han Guizhi</td>
<td>Party secretary of Jiamusi→Party Secretary of the provincial Party School→Chief Procurator of the provincial Procuratorate (vice-provincial level)</td>
<td></td>
</tr>
<tr>
<td>Promotion and maintaining positions</td>
<td>Xu Yandong</td>
<td>Han Guizhi</td>
<td>Promotion to the Chief of the Supreme Court of Heilongjiang</td>
<td>Y9,500,000 ($1,234,050)</td>
</tr>
<tr>
<td>Promotion</td>
<td>Fu Xiao guang</td>
<td>Han Guizhi</td>
<td>A school principal→Chief of the Bureau of Transportation→the assistant of the provincial governor→vice-provincial governor in four years</td>
<td></td>
</tr>
<tr>
<td>Same-level transfer to a better job</td>
<td>Zhao Hongyan</td>
<td>Han Guizhi</td>
<td>Party secretary of Suihua→vice-minister of provincial DOO and chief of the Personnel Bureau</td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td>Ma De</td>
<td>Han Guizhi</td>
<td>Mayor of Suihua→Party secretary of Suihua</td>
<td>Y800,000 ($103,920)</td>
</tr>
</tbody>
</table>
Table 6.2 Offices for sale in Heilongjiang, Municipalities→Counties

<table>
<thead>
<tr>
<th>Promotion Path</th>
<th>Amount of Money Transacted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Zhang Zhongyi</strong>→Vice-director of the Bureau of Hydraulic Power Engineering <strong>Zhao Hongyan</strong>→Director of BHPE→Chief officer of the Municipal Administrative Bureau</td>
<td><strong>Y30,000 ($3,897)</strong></td>
</tr>
<tr>
<td><strong>Li Gang</strong></td>
<td><strong>Y100,000 ($12,990)</strong></td>
</tr>
<tr>
<td><strong>Wang Yinghe</strong>→Deputy-mayor of Aodong <strong>Zhao Hongyan</strong>→Member of the general Party committee of the city</td>
<td><strong>Y300,000 ($38,970)</strong></td>
</tr>
<tr>
<td><strong>Lu Dai</strong>→County governor <strong>Ma De</strong>→Local party secretary of Suiling County</td>
<td><strong>Y146,000 ($18,965.4)</strong></td>
</tr>
<tr>
<td><strong>Wang Xuewu</strong>→Promotion to the county governor of Qinggang county <strong>Ma De</strong></td>
<td><strong>Y500,000 ($64,950)</strong></td>
</tr>
<tr>
<td><strong>Su Jilu</strong>→Vice-Party secretary of Qinggang county <strong>Zhao Hongyan</strong></td>
<td><strong>Y150,000 ($19,231)</strong></td>
</tr>
<tr>
<td><strong>Su Jilu</strong>→Holding a concurrent post of chair of Qinggang county <strong>Ma De</strong></td>
<td><strong>Y340,000 ($44,166)</strong></td>
</tr>
<tr>
<td><strong>Gao Bo</strong>→Vice-Party secretary of Aodong <strong>Ma De</strong></td>
<td><strong>Y290,000 ($37,671)</strong></td>
</tr>
<tr>
<td><strong>Li Gang</strong>→Li Gang accepted others’ bribes 119 times for Office-sale <strong>More than 35</strong></td>
<td><strong>Y2,100,000 ($272,790)</strong></td>
</tr>
</tbody>
</table>
In this long chain of corruption, whenever a superior sold a chief executive position of a government agency or a political jurisdiction to a subordinate, the latter subsequently got the “permit” to sell positions under his/her charge during his/her term in office, which ranged between three and five years. The press satirizes that Han was doing “wholesale” of public offices; while Ma De and Li Gang, the lower level officials were the “retailers”.

**Why Are Offices for Sale?**

Contemporary BSO in China has considerable historical precedents both in imperial China and in Europe like France and Britain. In traditional China and pre-revolutionary France, the government sold offices in order to offset their swelling budget deficits. In Britain, commissions of the navy and army were regularly bought and sold into the mid 19th century. But BSO were often tolerated, because in “pre-modern” political system, the distinction between private positions and public positions was blurred. Theoretically speaking, before the transition to modern state system, BSO was hardly to be defined as corruption, because it was accepted that individuals who performed “public service” were entitled to “private compensation”; and public
offices were sellable commodity for profits. After 1949, BSO was not legally tolerated anymore. It was reportedly completely eliminated by the CCP, which used a tightly controlled organization to determine all assignments to official positions. But with the increasing influence of money in political and administrative processes since the reform, the old form of corruption reemerged in the 1990s, despite years of anti-corruption effort.\footnote{Xiaobo Lu, Cadres and Corruption: The Organizational Involution of the Chinese Communist Party (Stanford, Calif.: Stanford University Press, 2000), p. 109.}

To gain public power is a common concern of the political career for most politicians across the world, whereas, career concerns do not necessarily lead to corruption. In a democratic society, a politician with a prospective view is more likely to be honest if government decisions are transparent to the public and voters are retrospective. This point is further reflected in Myerson’s game theoretical models. He shows that federal system can further prevent democracy from failing consistently. That is, every newly-elected leader governs corruptly so that voters have no incentive to replace corrupt leaders given the high cost of changing leadership. In a federal system, the provincial leaders would have strong incentives to build their reputation and use their power responsibly in order to compete for national election in the future.\footnote{Roger B. Myerson, “Federalism and Incentives for Success of Democracy”, in Quartery Journal of Political Science, 1:1 (January 2006), pp. 3-23.} In contrast, the reemergence of BSO in China indicates institutional weaknesses that give the officials not only the motivations but also the capabilities to send and accept bribes. I will analyze this from both
the supply and demand side.

**The Demand Side**

What kind of people tend to buy offices? Case-H involves various kinds of officials, including young and old, male and female, capable and incapable, low-leveled and high-ranked ones. We can roughly divide them into two groups, “active buyers” and “passive buyers”. Usually cadres who are not qualified for promotion are active buyers. Qualified candidates are often forced to buy off their superiors because of the deeply corrupt environment. For example, one of the accessory cases revealed in Case-H was about a capable young female cadre, whose career had been quite promising before. After she was promoted by Han Guizhi, her colleagues suggested her send some money to thank Han. She sent Han Y300,000 ($38,970), which was discovered during the investigation. She was punished by the party discipline and demotion.

For those qualified officials, staying out of the corrupt network gives them no benefits; instead, they are very likely to be supplanted by active office buyers. Therefore, many of them have to give in and follow the informal norms.

What are the most desirable positions for an office buyer? Obviously, they are the ones where

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313 Interview notes, IN07/26/2005/BJ, No. 3 (Beijing), July 26, 2005,
bribes are the most readily available. Table 6.1 and Table 6.2 indicate that three types of positions were sold. They also partially reflect the main administrative sectors that are vulnerable to monetary enticement in contemporary China.

The first is the chief executives of agencies in charge of public projects like the Bureau of Transportation and the Bureau of Hydraulic Power Engineering. Although market economy has expanded a lot in the past decades, the state is still the distributor of many resources, including bank loans and land. Many construction projects, such as building highways, dams, and schools are invested by central or local governments. The government agencies responsible for these projects are allotted large amounts of public funds, which are often controlled mainly by the agencies’ top executives. For instance, the head of a transportation bureau usually automatically assumes the position of project manager of local highway constructions. He/she is in command of budget and organization through arranging bid and picking the winner. Aiming at huge profits, many private entrepreneurs would approach these officials by sending bribes, gifts, or other interests to compete for these projects. Very often, bidding becomes a procedure of performance, whereas the real winner is already determined by under the table deals.\(^\text{314}\) The transportation sector has been one of the most vulnerable areas encroached by corruption. In Henan province, three executives of the provincial Transportation Bureau were arrested successively because of

\(^{314}\) Interview notes No. 26 (Tianjin), August 2006.
accepting bribes. From 1997 to 2005, 17 executives of provincial transportation bureaus were
indicted and penalized for corruption. No wonder the public saying goes, “daolu tongche, tingzhang luoma” (Once the construction of a road is over, so is the career of the head of the transportation bureau).

Second, leadership positions in regulatory and law enforcement agencies are also highly desirable, like the chief of the provincial Supreme Court and the provincial Supreme Procuratorate. Sales of these positions constitute a glaring irony of the monitoring system. Law-enforcing agencies are mandated to combat corruption. However, in recent years, many judges, prosecutors, and police officers abuse their power for personal gains. For instance, some of them take bribes from the suspects and then leak information to them or help them falsify the evidence. Others illegally imprison businessmen to seek large amounts of bail from their families. Cases were reported in many provinces, including Tianjin, Jiangsu province, and Shanxi province. “Judicial corruption” has become a main target of anti-corruption campaigns in recent years.

The last type is the “yi ba shou” (number one position) of a government organ. This mainly


refers to the post of party secretary. The party and the state hierarchies are intertwined in China. Except in some lower levels where the party secretary and the executive are at times performed by the same person, wherever there is a governor, there is a corresponding party secretary who is usually the number one boss in the jurisdiction. At the city level the party secretary leads the city party committee, which consists of the mayor and some vice-mayors, as well as some other officials heading the important departments of the party, such as the department of organization and the department of propaganda. The party committee determines all the major issues in the city. Inside the committee, the party secretary has the final say over everything, including policies and personnel placement.

Moving to the number one position brings improvements of both authorities and materials, such as salaries, residential and transportation amenities. Although vulnerable to the leaders above him/her, a top executive of a government (a city, a bureaucracy, or a unit) is able to act like a “petty dictator” toward those below, because he/she has an extraordinary degree of leverage over his/her subordinates. He/she could strongly influence their careers, promotions, and allocation of many goods (like housing and bonuses). All of this makes the “number one” position a hotspot for office buyers.

To sum up, office-buying is induced by all kinds of reasons, including the pursuit of materials, power, ambition, as well as the pressure of the environment. Some of the office buyers are self-motivated primarily, others are passive followers when BSO prevails and the chances of promotion are limited.

**The Supply Side**

One-sided demand does not guarantee the supply of offices. The capability and the willingness of a superior to sell offices are even more important. Theoretically,

“promotions are decided collectively at top-level meetings—be they county, municipal, or provincial levels—and usually require further approval at the next level of state/Party administration. Job transfers and placements depend much on the needs and the moods of prospective employers.” \(^{318}\)

In practice, the procedures of promotion can be manipulated by a few officials, principally the top executives of local governments and those in charge of personnel departments. The candidates are usually nominated by the party secretary and the minister of the DOO. In the committee meetings, the minister of the DOO would present a list of candidates to the members of the party committee first. Usually more time and attention is given to the top-listed candidates. By twisting the sequence of nomination, the minister of the DOO can change the chance of promotion for a candidate. \(^{319}\) Some officials of the DOO even help removing bad records in the

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\(^{319}\) Interview notes No. 3.
dossier of an unqualified candidate to make him/her meet the requirements of promotion. Because of their power, the leaders of the DOO are often ingratiated by officials, sometimes regardless of costs, for their political career. An ironical case reported in Sichuan province recently is about a county party secretary and an imposter. A man imposed himself as a leader of the CDOO. The county party secretary, Tian Yufei, thought that this man would be very helpful for his further promotion and sent him Y500,000 ($64,950).320

Those who enjoy more advantages than the cadres of the DOO are the party secretaries. The opinion of the party secretaries weighs much more than that of other officials, given their supreme status in the party committees. In addition, reciprocity is valued among officials. If one gives support to the candidates picked by the party secretary, he/she could often get benefits in the future for an exchange. Therefore, once the party secretary supports a candidate steadfastly, other officials are unable to and/or reluctant to object.321 In a newly discovered case in Anhui province, the vice-provincial party secretary Wang Zhaoyao promoted several of his relatives despite the disagreement of other officials. Meanwhile, the officials, who supported Wang and his relatives, received “special care” from Wang. His relative, Yang Zhixin, using his privileges of the vice-minister of a county DOO, sold 69 offices in five years and accepted bribes about a

321 Interview notes No. 3
million RMB ($129,900). Hence, if the top officials want to give the green light to somebody, they could do so by taking the leeway without violating the formal procedures.

In Case-H, the chain of office selling corrupted almost the entire government bodies in several counties. The formal rules were compromised by the illegal norms of BSO. When Li Gang was the party secretary of Suiling County, nearly all of the major officials of government agencies in that county joined the “team” of buying offices. In that situation, “the government probably would not bother to put on an appearance of going through the regular procedures of personnel matters.” The top executives could freely make appointments.

Researchers notice that “the lack of alternative avenues to enrichment” is another motivation of BSO. Almost all of the office-selling cases occurred in relatively poor provinces, where market economy is not developed. Besides Heilongjiang, similar cases have been reported in the provinces of Anhui, Shanxi, Hebei, Jiangxi, Henan, Ningxia, Shandong, Guangxi, and Guangdong in recent years. Among them, except for Zhanjiang in Guangdong and Tai’an in Shandong, all others are rural, where the opportunities of corruption through real estate development, government procurement, and SOE reforms that amply exist in the relatively

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322 “Zhongjiwei Diaocha Anhui Shengwei Yuan Fushuji; Jiang Qianshe Dapi Guanyuan” [The CDIC investigates the former vice-Party secretary of Anhui province; a large number of officials will be involved], in Hainan Shichuang [Hainan Review], Renmin Wang [People’s Net], November 30, 2006, <http://news.0898.net/2006/11/30/277256.html>

323 Sun, Corruption and Market in Contemporary China, p. 146. This point is also verified by several of my interviewees and many news reports.
wealthy provinces are largely absent (Sun 2004: 145). In this perspective, the high frequency of office-selling in under-developed regions does not necessarily mean the officials there are more corrupt than their counterparts in the wealthy places. It only suggests that they are corrupt in different ways.

**Market-Forming of BSO**

For two reasons, not all the demand and supply reach the final transaction in daily life. First, the two parties may not know each other; second, the two sides may not agree on the price. It is puzzling how the office buyers and sellers arrive at a deal without a public market. How do they let each other know the demand and the supply? How do they arrive at the “equilibrium prices”? Most of the details are only known by the parties involved. However, it is clear that either side could move first. In other words, the kickbacks could be either sent from below to superiors or solicited from top to bottom.

An office buyer can actively send bribes to his/her superior with various excuses. It is said by the public that, “a briber is only afraid that a leader does not have difficulties or hobbies, which helps legitimate the bribes.”

324 A popular practice is to send money or gifts to the family members of a leader, for example, to provide financial sponsorship to the offspring of the leader for studying abroad. Sometimes, an office buyer needs to send money several times to satisfy the

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324 Interview notes, IN07/01/2004/BJ. No.1 (Beijing), July 1, 2004.
superior. Li Gang bribed Zhao Hongyan twice for his promotion. In 1996 Li sent Zhao Y5,000 ($649.5) first. To ensure his promotion, Li sent Zhao another Y10,000 ($1,299) during the Spring Festival of 1998. Bribery does not end after one gets the job. Many people send money to thank the leader for promotion, although they have paid their “fees” before. They also want to get promotion, protection, or other benefits continuously from the superior.

A superior, on the other hand, can seek rent from the subordinates by frequently reshuffling the cadre corps in the name of political reform. For example, when Suihua was upgraded from a county to a municipality, a number of new positions were added and old positions removed, which created many opportunities of office-selling. Eager for promotion and worried about demotion, many officials were anxiously looking for channels to send bribes to their superiors. Sometimes, a superior might intentionally leave a position without occupancy for a long time to wait for a higher bid. In Henan province, a county Party secretary, Yang Gongquan even directly required bribes brazenly from people if they wanted to take profitable positions.325

The price-setting of public positions is even harder to know. Based on Case-H, prices seem to be set by some “silent agreement” among cadres that positions that are more important and easier to collect bribes should be more expensive. In Case-H and other cases, some public positions

were priced openly. In Yang Gongquan’s case, Yang priced the executive of the county Finance Bureau Y400,000 ($51,960), the head of the county People’s Hospital Y300,000 ($38,970), and the Party secretaries of towns Y60,000 ($7,794) to Y100,000 ($12,990). But usually, BSO is carried out secretly. An office buyer has to consider both efficiency and safety. When Li Gang sought for promotion from Ma De, he asked his wife, “How much should I give him? If I send too little, it is not going to work. But sending too much cash is too easy to be found out.” Finally he decided to save Y300,000 ($38,970) in bank under a fake name first and then give the bankbook to Ma De’s wife. In the next year, Li was promoted by Ma. It should also be noticed that an office seller—the superior—is not completely the same as a common seller, for whom monetary profit is the only or the most important concern. An official also cares about whether he/she can take the current seat stably and whether the subordinates follow his/her orders. Therefore, the prices are also differentiated by the personal relations between a superior and a subordinate. A person showing loyalty and support to the superior could earn a promotion with lower cost. In Case-H one might get the top post as a county party secretary by paying Y100,000 ($12,990); others can only obtain “er ba shou” (the number two position) of a county governor with Y300,000 ($38,970).

326 The detail information on Li Gang and other bribery cases in Case-H in this section were collected during my fieldwork in 2005 and quoted from interview notes No. 3.
Indeed, BSO was semi-public in Heilongjiang. Under the protection of the provincial leaders, the office-selling chain spread extensively, which in turn, assisted the achievement of new deals. For officials had more certainty of their future businesses of office selling that were necessary to recover their current cost of office buying. The chain was consequently self-enforced and self-institutionalized.

**Promotion Criteria and BSO**

Actually, the lack of hard promotion criteria has increased the likelihood of BSO. Several of my interviewees mentioned that promotion criteria of cadres are difficult to define and predict. Objective economic and political performance is emphasized in evaluation of cadres, and good performances are believed to be useful for cadres to earn promotion. However, the fulfillment of targets and standards cannot accurately tell the ability of an official sometimes, considering different social and economic environments in different localities. It is widely agreed among China scholars and verified by my interviewees that personal connections with one’s superiors in charge of promotion is perhaps equally or even more important than performances. For example, Landry (2002) finds, by empirical study, that although the Chinese mayors are pressured to fulfill the economic targets, their performances do not influence their political fate as much as people
usually expect. Through examining central distribution of bank loans to provinces, Shih (2004) shows the political factions are indeed one of the sources for local officials to get various supports to pursue better performances.

The personal connections in political arena usually arise from shared characteristics between people, such as family connections, common geographical origin, or shared experience (school or military services ties), etc. As Shih (2004: 7) argues,

“Shared experience and primordial ties provide some information about the character of another person, decreasing the cost of searching for a suitable candidate. It is also socially less awkward to approach someone with whom one shares common experience or primordial ties.”

Consequently, without those advantages of shared ascriptive ties, many officials resort to monetary methods to build up good relationships with their leaders to earn a higher chance of promotion. In these circumstances, power concentration of personnel issues in the supply side makes bribery more efficient, for it clarifies the potential targets to bribe for a subordinate. Office-selling is also made safer for the decision maker, because he/she can easily hide his/her responsibility behind collective decisions of the party committee, since all the final decisions have to be unanimously passed according to the formal procedure.

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327 For example, see Pierre F. Landry, “Performance, Markets, and the Political Fate of Chinese Mayors”, in Annual Meeting of APSA (Boston, MA), September 2002.
Ineffective Monitoring

Case-H also indicates serious weakness of the monitoring system. Chapter 2 has given a systematical examination of the anticorruption system. Before 1978, the CCP used mass mobilization and quite coercive measures to fight corruption. Though radical and hurting many innocent people, they nearly eliminated corruption completely. For years, few corruption cases were reported. Current anti-corruption effort instead utilizes more institutionalized mechanisms. There are specialized agencies (i.e. CDIC/Supervisory Ministry and the Procuratorates) to investigate and punish official venality as well as hundreds of communist party rules and legal provisions defining corrupt acts and stipulating punishments. Yet, institutionalization does not bring effectiveness. In terms of Case-H, monitoring of corruption seemed totally absent for years. Current monitoring failure can be attributed to two difficulties—the “physical difficulty” and the “political difficulty”.

The physical difficulty refers to the hardship to collect concrete evidence of corruption, especially in the case of bribery. Most corrupt transactions are committed secretly. Once a transaction is concluded, the two parties are seated in the same boat and share the risks of being caught. Both of them attempt to keep the secret and protect each other. Moreover, evidence

requirement is more demanding for investigations of high level officials than ordinary ones. Anti-corruption agents are allowed to run after high level officials like a party secretary of a prefecture only if they can obtain very solid evidence based on, among others, at least a number of *shiming jubao xin* (reporting letters signed with real names). Actions cannot simply base on a few anonymous letters saying that some party secretary is corrupt. Meanwhile, reporters themselves are often reluctant to reveal their real identities, for signing real names could result in retaliation, which actually occurs periodically. With few verifiable reports, the monitoring agencies seldom bug high level officials. It makes people suspect that the provincial and central government want to protect those corrupt officials intentionally, and therefore have even fewer incentives to report official corruption.

As a result of the lack of evidence, many cases are accidentally uncovered and formally filed many years later, including Case-H. In 2002, policemen in Ha’erbin were attacked while investigating a nightclub providing prostitutes. After his arrest, the boss of that nightclub confessed to bribing Ma De for receiving bank loans many years ago. After Ma De was arrested, he confessed all the facts of Han Guizhi BSO case. The personnel “earthquake” began in Heilongjiang thereafter.331

The political difficulty is caused by the dependency of the monitoring agencies on local

331 Lu, Duan, and Wu, “Chaijie Heilongjiang Maiguanlian,” p. 32.
governments. Since 1982, the DICs at every level constitute the lead anticorruption agency at that level, which are led both by the DIC one level up and by the local party committee dominated by the local party secretary. Under “dual-leadership”, when a local DIC disagrees with the decisions of its leading party committee, the DIC is authorized to request the DIC one level higher to reexamine the case and to conduct a preliminary investigation of such cases.332

For instance, a municipal DIC can report to the provincial DIC if it wants to investigate officials at municipal level. However, the party secretary of the provincial DIC is only a member of the party committee led by the provincial party secretary. The final decision of investigation has to be approved by the provincial Party secretary. Therefore, the effectiveness of vertical management and anti-corruption effort are largely determined by the local Party secretaries at different levels, whose willingness of fighting against corruption is crucial.

In Case-H the involvement of several provincial leaders set up a big umbrella for local cadres that protected them from being monitored. Under this umbrella, the Party secretaries in many municipalities and counties were office buyers and sellers. To put it in a different way, the persons whom the state counted on to control and regulate other public agents violated the norms and laws themselves. With corrupt monitors, BSO became a systemic business for the officials in Heilongjiang, who took full advantage of the institutional weaknesses to satisfy their personal

332 See Manion, Corruption by Design, pp. 122-123.
greed.

The physical and political difficulties of monitoring shield higher level officials from supervision. Many officials whom I interviewed admit that under current monitoring systems, it is very difficult to supervise the top executives, especially the party secretaries, because too much power is in their hands. As commented by the former party secretary of the provincial DIC of Hunan province,

“In one word, (the party secretaries) cannot be monitored. For a municipal party secretary, if we (the provincial DIC) do not control substantial evidence, we will not investigate him…… On the other hand, in a local area, the party secretary usually determines everything. ….. It is impossible to supervise him. …..Supervision from people below him is illusory. Who dare to monitor leaders above oneself? Especially without much evidence, who dare to report the problem?”

In addition to the ineffective monitoring is the relatively arbitrary punishment and low punishment rate. The DICs led by the party are usually the first and the major organization to deal with most of the corruption cases. After determining the disciplinary punishment, they will decide whether to refer a case to the procuratorate for legal investigation, which then determines whether to prosecute the criminal for more serious penalties. The DICs are different from the procuratorate, that they do not have provisions to stipulate punishments. Instead, punishment decisions are made mainly according to the socio-economic impacts of a case, the willingness to

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confess of the corrupt cadre, and his/her previous contribution. Therefore, not all of the cases are transferred to legal agencies and not all the corrupt cadres are given legal penalties. Chapter 2 estimates in the most optimistic view that nearly 80 to 90% corrupt officials could escape from harsh legal penalties; and at least 50% of them could totally run free from any punishments. In reality, according to the data published by the CDIC from October 1992 to June 1997, 731,000 cases were formally filed, among them 670,100 cases were concluded, the conclusion rate is 91.6%. During that time period, 669,300 cadres were punished by the party discipline, among them 131,500 were expelled from the CCP. Meanwhile, only 37,492 cadres were given both disciplinary and legal punishments, which constitute 28.51% of the cadres expelled from the party and merely 5.6% of all the cadres got disciplinary punishment. This low possibility of being discovered and seriously punished greatly decreases the cost of corruption.

The Consequences

Case-H was too severe to be ignored. The Center decided to inspect this case seriously and make it an example for officials in other places. Investigation of such cases must be very hard because it involved so many officials at various levels from towns and counties even to the central level. These officials usually reached agreements beforehand that once investigation started, they

334 Interview notes, IN08/25/2006/BJ.
would cover up for each other. In some places, the anti-corruption agents were threatened explicitly or implicitly. It took more than three years from inquiry by the CDIC and prosecutors to referring the case to the courts and then finally getting the major corrupt officials sentenced.

The procedure of interrogation and decision-making on penalties was never revealed. But all three of the major players in this case study—Han Guizhi, Ma De, and Li Gang—have been indicted and sentenced by the end of 2005 under the charge of giving and taking bribes and of holding huge amounts of properties with unidentified sources.

Li Gang, the lowest level official among the three, was the first one to be indicted in 2003 by the provincial procuratorate of Heilongjiang. He was given a life sentence. In 2005, death penalty with a two-year suspension was passed upon Ma De. Han Guizhi, the highest official among the three, had her first trial by the end of 2005. The First People’s Court of Beijing delivered her death penalty with a two-year suspension, taking into consideration of the huge amount of bribes she took—above 7 mil RMB (over $909,300)—and her relatively good attitude of confession.336

What are the effects of this egregious case on the local area? Scholars often have different opinions on the practical implications of corruption. The situation in China is especially complicated and debatable. Although the average gross domestic product (GDP) growth rate is around 8% annually, many scholars argue that corruption costs about 13%-16% GDP every year and that without corruption China could have developed even faster.\(^{337}\) Others believe that bribes are sometimes the incentive bonuses for public officials to comply with the Center’s policies.\(^ {338}\) Many researchers also show that the effects of corruption vary according to the institutional conditions. Some types of corruption might bring positive by-products—economic development and wider political participation, while others hinder social development.\(^ {339}\) Whereas, many years of BSO among officials in Case-H have damaged both the economy and political institutions badly.

The average salary for a county level official is only about Y1,000 ($129.9) per month. How can he/she afford the price of Y100,000 ($12,990) for a promotion? Apparently, most of the bribes office buyers sent to their superiors are the rents collected from their own subordinates.


\(^{339}\) See David C. Kang, Crony Capitalism: Corruption and Development in South Korea and the Philippines (Cambridge, U.K.; New York, NY: Cambridge University Press, 2002). He compares South Korea and the Philippines and shows that although both countries have serious corruption, the reason that South Korea developed better than the Philippines economically is that the power of business groups and the government kept balanced for quite a long time, which determines the effects of corruption.
and private firms. The limited resources and capital all came to a few top officials through the long chain of buying and selling offices. A lot of potential market investments were transferred to cultivation of administrative promotions. Economic development was thus sacrificed and overlooked. The average disposable income and average consumption expenditure in urban areas of Heilongjiang were the lowest among all the provinces from 1980 to 2005. In rural areas, the two indices of the province placed top in 1978, about 128.74% and 107.58% of the average, respectively. However, in 2003 they were only 95.8% and 85.51% of the average. In the city of Suihua, during the eight years managed by Zhao Hongyan and Ma De, the average annual income per capita of rural areas dropped from Y2,135.5 ($277.4) in 1995 to Y2,024 ($262.9) in 2002 and reached its lowest of Y1,980 ($257.2) in 2000.  

What makes the situation worse is that the regular cadre selection procedures were gradually substituted by monetary exchanges. To recover the high cost of buying offices, office buyers had to squeeze rents from their subordinates, which further lengthened the chain downward. The chain even went out of the government hierarchy and expanded to other public sectors in Case-H. An example I learned in the interview is that the position of a high school principal was sold to someone, who sold the jobs of teachers to more people. The teachers, to cover their costs, had to sell small positions like class leaders to students. The merit-based system in all state organs was 

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340 Lu, Duan, and Wu, “Chaijie Heilongjiang Maiguanlian,” p. 34.
completely undermined by prevalent sales of offices. As more officials joined the array of BSO, others felt more pressure and were forced to follow the illegal rules to get a promotion or simply to maintain their positions. With more followers, corruption is largely tolerated and grows both in scope and in degree.

**Conclusion**

Case-H is only one of the BSO cases in recent years. Other office-selling cases are all more or less following the vicious circle of “bribing→seeking rent→re-bribing→re-seeking rent.” It is hard to measure what percentage of offices are sold in China today and to simply answer whether BSO is only a local problem or has infected central apparatus; but our case study shows once the top officials are involved in BSO, the majority of the following cadre corps are compelled to follow suit. It is not exaggerating to say that the sales of offices constitute an “inflation factor” of official corruption. Diffusion of BSO will result in privatization of public power and deinstitutionalization of the modern state, bringing about a return toward traditional practices and institutions.

Case-H serves as a prototype to study why, BSO, this old-form of corruption reemerged in contemporary China, how and why corruption can serve as means of promotion from the perspective of demand and supply, as well as the social/economic consequences. On the one
hand, the economic reform leaves government officials a number of profiteering opportunities, which makes office-buying not only cost-recoverable, but also highly profitable in the future. On the other hand, power concentration, especially the power of decision-making of promotions, in the hands of a few top officials gives them capabilities to sell offices. Moreover, the institutional weaknesses of the monitoring systems actually nurture corruption. Monitoring the top executives is often absent because of the physical and political difficulties of supervision. In Anhui province, a county Party secretary, Yang Jianguo sold offices to many cadres, who accepted bribes from others at the same time. No real supervision was conducted on him for years until the CDIC started investigation on him after a retired cadre reported Yang’s corrupt behaviors to the DICs repeatedly for three years. During the three years, Yang threatened that retired cadre several times. After the first two years, with no action taken by the local DIC, Yang was even on the verge of receiving a new promotion. Angry and disappointed, the retired cadre decided to report the case to the CDIC, which finally got the attention of the center.  

In terms of social/economic impacts, it is hard to see anything positive of BSO based on the study of Case-H. In many provinces, BSO has already led to public grievance widely. For example, in Shanxi Province the vice-provincial Party secretary, Hou Wujie, sold a position of

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police director to Shao Jianwei, who used his power to protect a mafia group in the province.  

This notorious case seriously devastated the reputation and image of the Party and the government. In addition, when cases evolve into the situation like Case-H, the central government faces very awkward choices. Without getting rid of the corrupt network, the local area will be further paralyzed and social instability could occur. However, digging out the network will lead to the removal of many officials and a costly personnel earthquake. Corruption on personnel issues will also generate other types of corruption. Many BSO cases were discovered together with embezzlement, engagement in speculation, and abusing public power, etc. The central government has realized this and given more attention to the problem. Wu Guanzheng, the Party secretary of the CDIC said in a speech,

“For those cadres who ask for offices and promotion, we should not promote them or set them important positions; moreover, we should criticize them seriously and have their mistakes recorded. For those buying and selling offices, we should investigate and punish once discovering. We will show them no mercy. ……”

Those BSO cases have sounded the alarm of the degeneration of cadre management of the CCP—specifically, the cadre selection and appointment systems and the cadre monitoring systems. Many problems causing BSO also exist in other forms of corruption. For example, the

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342 “Shanxi Yuan Shengwei Fushuji Hou Wujie Bei Shuangkai, Jianfang Yi Li’an Diaocha” [Former vice-Party secretary of Shanxi province Hou Wujie was expelled from the Party and his public position; the procuratorate has started the investigation], Xinhua Wang [New China Net], October 20, 2005, <http://news.xinhuane.net/legal/2005-10/20/content_3652986.htm>.

343 “Paoguan Yaoguan de Buneng Tiba Zhongyong” [The cadres asking for positions should not be promoted and set important positions], Xinhua She [New China News Agency], in Gaoceng Dongtai [Dynamics of the Senior Officials], Renmin Wang [People’s Net], February 13, 2006, <http://politics.people.com.cn/GB/1024/4100289.html>.
absence of supervision and power concentration also trap top executives in other corruption cases. The rate of big and major cases among all the corruption cases committed by the top executives has been increasing in the past years. This rate was about 51.8% in 1999 and rose to 75.1% in 2003.\textsuperscript{344} In 2001, the CDOO enacted a new regulation to strengthen the monitoring effort on cadres. It required the local government, especially the personnel departments, to follow the formal procedures of cadre selection and appointment strictly. And the CCP Internal-Party Supervision Ordinance (zhongguo gongchandang dangnei jiandu tiaoli) issued by the Central Committee has made the “top bosses” of party and government organs the main subjects of supervision (Article 3, December 31, 2003, by the Central Committee). However, it is in question how much the situation will improve if power remains concentrated.

Chapter 7 Conclusion

This research hopes to contribute some new perspectives to current studies on corruption in China. A lot of existing literature has systematically tracked the changing corruption at different reform periods, and even before 1978 and in traditional China. This study takes a different approach, which, instead of directly looking for the causes of corruption, tries to answer why the increasing corruption has not yet totally got of control of the CCP and become as rampant as in many other countries and so destructive to economic growth. To answer this question, I borrow the principal-agent framework from the institutional economics and focus more on exploring regional variation of corruption rather than explaining the different forms of corruption over time.

I argue that a lot of official corruption is indeed motivated by officials’ concern about career advancement. As the cadre management literature shows, official promotion is mainly determined by their political and economic performance in local jurisdiction, their age and degree of education, and informal personal connections with their superiors. In the past years, the bar of objective factors, such as performance, age and education degree, has been set higher and higher. Several criteria of local performance are actually uncontrollable by the local governors; young and well-educated officials are more preferred for further promotion; and age limits to
retire are gradually institutionalized. Therefore, promotion becomes harder and many officials’
political career has been shortened. It pushes officials to resort to irregular and even illegal
means to cultivate for career success.

Local officials might inflate economic statistics to cheat upper level governments, or collect
extra fees and levies to fulfill the tax targets assigned by leaders above. While local governments
possess less leverage to pursue fast economic growth in a short term, most of them rely on
land-selling and real estate development to enrich local coffer and to generate the rosy numbers
of GDP growth rate. Rising “signature buildings” and various “achievement projects” are
indispensable performance decoration for local officials to impress their superiors so as to obtain
promotion in only two to three years. However, money is often squeezed from the more needed
projects, such as health care and education.

More importantly, the large scale land-selling and real estate development have created many
corruption opportunities, especially for the government agencies in charge of managing the
industry. Some local governors would relax discipline monitoring on lower level officials, if
anticorruption enforcement conflicts with the seemingly good economic performance. Some
governors even directly involve in local corruption. They take or seek bribes not only because of
the opportunities related with their power and the huge monetary enticement, but also because of
the need of network cultivation. As objective criteria such as performance and age become harder to meet, subjective personal connections turn to be more crucial. Some officials resort to monetary means to cultivate a close tie with their superiors for promotion; others choose to buy and sell offices blatantly. In other words, corruption is not only means for officials to accumulate personal wealth but also a path of career investment and advancement.

However, the pathological career motivation of corruption does not distribute equally among all the officials. It has an “inverse-U” relationship with officials’ promotion likelihood that local degree of corruption is at its worst when a local official has mediocre promotion likelihood. The rising stars, such as those officials at younger ages relative to their counterparts at the same administrative level, or those closely related to higher officials in person, or those working in wealthy localities with more advantages to generate high growth, know their chances of further promotion are greater than others and thus have less need to rely on corrupt means to pursue promotion. The laggards, such as those who are going to retire very soon, know their chances of further promotion are slim and thus have less career motivation of corruption. Yet, the mediocre officials believe if only some extra advantage could be introduced, they would have a chance to be promoted. Therefore, corruption is likely to be the most serious in localities governed by mediocre officials. This hypothesis has been tested statistically in Chapter 5. The cadre
management system of the CCP has synchronized the short-term and long-term incentives of public officials. It has also linked the incentives of at least some local officials with the interests of the Center. Degree of corruption varies across regions according to different promotion likelihood of officials. Corruption is relatively lower and better controlled in localities where officials are promising for further promotion. This helps explain why corruption has not yet totally got out of control of the CCP in China.

**Socio-Economic Impacts of Corruption**

Though embraced in the general analysis, the impacts and consequences of corruption is not discussed specifically yet. We could distinguish the consequences into political and economic ones. In terms of politics, there is probably little disagreement that corruption has brought very negative impacts on the CCP, even jeopardizing its ruling position in China. Public grievances on official corruption have never reduced since the reform started. Though nationwide mass demonstrations did not appear again after 1989, small-scale collective protests sporadically occurred around the country. Elizabeth Perry raised some examples in her research (1999: 309-311). In Guangdong, dozens of entrepreneurs rallied outside the provincial government offices to complain about cadres charging exorbitant fees in June 1995. Timed to coincide with the arrival in Guangzhou of the commissioner of the Hong Kong anticorruption agency—the
Independent Commission against Corruption (ICAC) for talks about strengthening anticorruption measures, the protests ended with the arrest of a number of demonstrators. In Shanghai, marches have also been sparked by anger over corruption. According to Public Security Bureau statistics, city authorities in 1990 received fifty-six applications for marches and demonstrations, about 15 percent increase from the previous year. While seventeen of these protests concerned disputes over housing or property rights that could be indirectly related with corruption, twenty-two were ignited by a sense of bureaucratic injustice or of outrage toward officials on the part of ordinary citizens. As Perry notes, the disgust about corruption is also shared by some state cadres. For instance, in June 1994, more than 4,000 cadres (3,700 of whom were Party members) in Inner Mongolia joined a petition drive to express their discontent about the privileges enjoyed by their superiors. They made several demands on their leaders, including a stop to purchasing cars and distributing luxurious houses and making public the investigation and handling of corrupt officials and abusers of power in the Party and government leading bodies of the autonomous region in order to redress the grievances of the general public (Perry 1999: 311).

The widespread perception that Party and government agents are tainted by corruption has also damaged the credibility of public officials and the legitimacy of the regime. Many social problems, for instance the high housing prices and the costly medical expenses, are condemned
and attributed to corruption. Scandals of corruption exposed by the media and internet bloggers are often regarded by the public as representing a common tendency among government officials instead of occasional individual wrongdoing. It indicates the lack of trust in the public officials. Several surveys show that the society concerns corruption and anticorruption the most prominent sociopolitical issue in China. For instance, Yang Dali cites a survey conducted in late 1998 by the Far Eastern Economic Review, in which top managers, senior cadres, educators, and entrepreneurs in three major centers, Beijing, Shanghai, and Guangzhou, ranked anticorruption as the most important measure for promoting economic development. He mentions that in a variety of Chinese surveys conducted in 1999 of scholars, officials, as well as the general public, the respondents invariably ranked corruption as the most serious issue confronting Chinese society (Yang 2004: 221). In February 2004, an online survey conducted by the Xinhua News Agency—the government controlled news source—right before the meeting of “two conferences” (the NPC and the NPPCC) once again reveals that corruption is the issue that the internet users care the most. In the 14,520 valid votes, 12,515 votes, 86.2% of total ballot, are cast to “anticorruption”, which also maintains the leading position in the whole survey process.345

Opinions on economic consequences of corruption are less in conformity as that of the political ones and debated more frequently and widely. One of the questions that have attracted many research interests is why the economy in China can sustain a fast growth rate in spite of the serious corruption. Realities and recent theories both show that corruption in general has adverse effects on economic development. Mauro (1995), as the first attempt to study the relationship between corruption and growth in a large cross-section of countries, finds that corruption lowers investment, thereby lowering economic growth, using subjective indices of bureaucratic honesty and efficiency. More research that links corruption to slower economic growth emphasizes efficiency distortion from the perspective of micro economics. Corruption could lead to social losses by stopping establishment of new firms, propping up inefficient firms, and causing the allocation of entrepreneurial skills, productive technology and capital away from their socially most productive uses (Murphy, Shleifer & Vishny 1991, 1993; Choi & Thum 1998; Svensson, 2003). Case studies in different countries, like sub-Saharan African countries, Peru, Indonesia, and south Indian state, also tend to support above theoretical predictions. Corruption does distort farmers and entrepreneurs’ choices of technology and allocation of talent in those places, which

“anticorruption” from second to tenth are income disparity across regions (6144 votes), cost of education (5808 votes); breaking the monopoly of telecom and railway industry (571 4 votes); increasing peasants’ income (5528 votes); public safety (4971 votes); improvement of social welfare system (4559 votes); employment and re-employment (4551 votes), protection of legal rights of peasant workers (3766 votes); and Taiwan’s UN membership referendum (3312). See “Lianghui Diaocha Redian: Wangmin Zui Guanzhu Fanfubai Wenti” [“Two Conferences” Hotspot Investigation: Internet Users Care Anticorruption the Most], reported by Lin Yu and Yang Dapeng, from www. Xinhuanet.com, February 28th, 2004, http://news.xinhuanet.com/newscenter/2004-02/28/content_1336725.htm, accessed May 28th, 2008.
consequently result in decline in productivity and living standards (Bates 1981; De Soto 1989; Fisman 2001; Wade 1982).

The 2007 CPI result, based on surveys of 180 countries (the greatest country coverage of any CPI to date), shows that a strong correlation between corruption and poverty continues to be evident. “Forty percent of those scoring below three, indicating that corruption is perceived as rampant, are classified by the World Bank as low income countries.” Many serious corrupt countries are unable to shoulder the burden of reform alone, because their public sectors were historically based on patronage and nepotism rather than merit. Counter intuitively, the fast economic growth momentum does not appear to have been impeded by corruption in China. Figure 7.1 compares the annual GDP and GDP per capita growth rate of some countries with similar ratings of CPI as that of China. The GDP growth rate of China is apparently much higher than other countries where corruption is either less or more serious.

The “high corruption and high growth” case of China is different from the theoretical predictions of high corruption and low growth. It is also different from those new industrial economies in East or Southeast Asia, which either have high growth and only medium corruption, like South Korea and Taiwan; or high corruption and medium growth, like Thailand and Malaysia.\(^{347}\) China is different from them not only in degree of corruption or growth rate, but also in terms of the endurance of the theoretically impossible combination of corruption and development. For most Asian examples above, their high GDP growth rate at 8 or 9 percent usually lasted for about a decade or less. The Asian financial crisis in 1997 finally proved to the

\(^{347}\) For medium corruption, I mean CPI average around 5 over 10. Medium growth means average annual GDP growth rate at 3-6%. High corruption means CPI average below 4; high growth means growth rate higher than 8%. 
world that fast economic growth conditional on “crony capitalism” (Kang 2002) can only sustain for a limited time length, though the World Bank report shows that East Asia and the Pacific are still the top performer among developing regions by 2004. Actually part of the reason that this whole region holds an average growth rate of 8 percent a year for the past two decades is because China has maintained a rate nearly 10 percent in the past 30 years.

Many scholars have suggested that, in the context of pervasive and cumbersome regulations in developing countries, corruption may actually improve development and efficiency. Leff (1964: 11) puts it simply, “if the government has erred in its decision, the course made possible by corruption may well be the better one.” Huntington also states, “Corruption produced by the expansion of governmental regulations may help stimulate economic development (Huntington 1968: 68).” Corruption could be a welcome lubricant easing the path to modernization in a society where traditional norms are still powerful and rigid. “In terms of economic growth, the only thing worse than a society with a rigid, overcentralized, dishonest bureaucracy is one with a rigid, overcentralized, honest bureaucracy (Huntington 1968: 69).” Economists have shown that, in the second-best world where pre-existing policy induces distortions, additional distortions in the form of black-marketeering, smuggling, etc., may actually improve welfare even when some

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extra cost have to be spent in such activities (e.g. Svensson 2005).

Economists have also used game theoretical models to show that even without pre-existing distortions of redundant government regulations, corruption could also generate efficiency. For example, sometimes a bribery game may be seen as a competitive bidding by private firms for a government procurement contract. The corrupt official would award the contract to the highest bidder in bribes, and then allocation efficiency is maintained, as only the lowest-cost firm can afford the largest bribes. In a more complicated scenario, where information about the cost levels and the bribing capacity of the competitors is incomplete, the situation could be modeled as an n-person symmetric game with incomplete information on the part of each player and one can draw upon the theory of sealed-bid auctions. Beck and Maher (1986) and Lien (1986) have shown that under the assumptions of the model, the lowest–cost firm is always the winner of the contract, and thus bribery can reproduce the efficient consequences of competitive bidding procedures under imperfect information. Another view in favor of corruption is to look upon it as “speed money” or “tips for bureaucrats”, which reduces delay in moving files in government offices and saves the opportunity cost of time for individual clients.

Critics to above examples argue that the distortions are actually part of the built-in corrupt

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practices of a patron-client network, though not exogenous to the system. The efficiency generated by corruption is at most the second best, and in many cases inefficiency may result from corruption. In the bidding game, if the official considers other than just the size of the bribe, for instance nepotism; or when the bid-winner chooses to supply a low-quality good at a high price, and the official lets in unqualified applicants with a high willingness to pay; or when bribery is used to limit the competition, inefficiency is of course the result. As for speed money, scholars have found that corrupt officials may, instead of speeding up, actually cause administrative delays in order to attract more bribes (Banerjee 1994).

The complexity of the realities makes it very difficult to simply agree with either side. Based on the case studies of real estate corruption and office-selling in this research, it looks corruption could have both destructive and functional effects on economic development. Which effects would dominate depends on the targets that the bribe wants to prey. If bribery targets on public power, such as in the case of office-selling, corruption will only result in more corruption and deinstitutionalization of the formal management system; and the gains from corruption will not very likely to be invested into productive activities. If bribery seeks for basic resources, such as land or capital, the gains of corruption are often invested, which could promote development. The effects of corruption would also vary according to the size of bribes. If bribes in demand are
too huge, corruption would create entry barriers for firms and discourage market competition. This observation is actually nothing new from the view of “neorevisionists”, who contend that corruption can alter in character and impact from one setting to another (Hutchcroft 1997; Sun 2004, Wedeman 1997a). The main problem is what conditions can lead to the less detrimental or “beneficial” corruption. Comparison of real estate corruption and office-selling seems to show that more business-friendly environment and somewhat developmental government tend to encourage the usage of corrupt gains for economic investment. In other words, not only the degrees of corruption but also types of corruption vary across regions in China, which produces mixed effects upon economic growth. Of course, further research and more empirical studies need to be conducted on this conjecture.

**Prospects of Further Research**

This research bears some limitations and opens possibility for further studies in the future. First of all, currently I use excessive real estate investment (REI) to gauge local corruption. No measure of corruption is perfect, indicators based on excessive REI is probably more accurate reflection of real estate corruption, especially bribery type of corruption in a society. The rise and fall of the excessive REI does not necessarily mirrors the change of other forms of corruption or corruption in other industries, though real estate corruption has been one of the worst types of
corruption in recent years. Measures based on other sectors, such as sales of restaurant and entertainment industry, and public opinion surveys would be good comparative reference to real estate indicators.

Secondly, current data set used for empirical test is at provincial level. It would be helpful to further test the hypotheses by data set at lower level governments, such as prefecture and county levels. It on one hand could increase the “N”—the sample size—and get more robust findings, on the other hand is useful for exploration of the characteristic and incentive differences of officials at different administrative levels. Government officials can be divided into two significant strata of elite—those in leading positions in central and provincial party/state agencies versus those in leading positions in grassroots units. Their behavioral patterns may be quite different (Lu 2000: 256). Yet based on the principal-agent framework and existing studies, my prediction is that the “inverse-U” relationship between officials’ promotion likelihood and local corruption would be stronger or more significant at prefecture level. Officials at prefecture level have no less interest in getting promotion and probably more opportunities to move up in the hierarchy than officials at provincial level. At the same time, because of central-local tax sharing system and the recent vertical integration of several government departments, fewer resources are left with the lower governments. Mertha (2005) finds that recent administrative integration
indeed weakens the central government but strengthens the provincial government and leaves the lower levels with fewer manageable powers. This is also the case found in management of land selling that more disposable right of land is collected from lower level and given to provincial governments. Therefore, governments at prefecture and county levels should have even less available leverage than that of the provincial governments to pursue fast economic growth, and thus more incentives to resort to irregular and illegal means to fulfill their targets and win promotion.

Finally, is the causal mechanism between officials’ promotion likelihood and regional degree of corruption in China unique? How common is the Chinese pattern of official corruption? How has the regime type influenced or shaped the causal mechanism between officials’ career concerns and political corruption? Further comparisons might be made between corruption in China and that in countries with similar transitions, such as Vietnam, and in former Communist regimes, such as Post-Communist Russia, Romania, or Hungary, and other developing countries at different income levels and degree of government.

**Reform Feasibility of the Anticorruption System**

The CCP seems to be capable of preventing corruption from spiraling up too high at least in the forecastable few years, but is it able to switch the situation from serious corruption to relatively
high government integrity in the coming years? Without much possibility to carry on fundamental political reform, the most practical means for the CCP to fight corruption is perhaps to reform the anticorruption system. The Chinese government has realized the importance of and put more emphasis on anticorruption since the 1980s. While moral exhortation and anticorruption campaigns are major means to crackdown corruption, the anticorruption work is seen to be more institutionalized in recent years than early reform periods. The DIC system and the procuratorates are the main agencies specialized in discipline inspection and investigation of corrupt crimes. However, effectiveness of corruption control through institutionalization is limited, because the anticorruption system still suffers from the party control, shortage of work forces, and multi-filters of the investigation procedure. Investigation and punishment of official corruption is highly dependent on the preferences of the party committees at every level. The relatively light party disciplinary punishment has been largely used to substitute for the more severe legal penalties against corruption and only a small percentage of corrupt officials are punished harshly by law.

Studies on anticorruption system often look at the ICAC in Hong Kong as one of the best examples to emulate for countries struggling with corruption. “The ICAC is not embedded in the civil service or any other larger organization with multiple goals (Manion 2004: 201).” It
effectively rejected the police who was perceived as the most corrupt of all in 1970s as anticorruption agents and enlisted ordinary citizens as voluntary enforcers. It was given strong investigative powers and considerable financial resources, which complemented its independence (Manion 2004: 202). The new, neutral, powerful, and independent agency worked as a signal to the public to show the government sincerity of anticorruption and helped legitimate the government effort. Would mainland China copy this agency design, should corruption be effectively minimized?

As Manion notes, agency design offers only the possibility of success, and there is nothing inherently credible about an independent agency design. The ICAC earned its credibility and popular support ultimately and continuously via its enforcement performance. The credibility of an independent agency such as ICAC inheres in the self-enforcing mechanisms that bind the agents inside, and more importantly that constrains the sovereign to her commitment, as she does not strictly “tie her hands” with agency design (Manion 2004: 202). The self-enforcing mechanisms lie not just in morality or professionalism of the law enforcers or government leader, but more in the constitutional context.

For non-democratic countries, Shang (2002) argues that the anticorruption strategies employed by different governments are shaped by their different regime type categorized along the degree
of legalization. In other words, the anticorruption system is not much a choice but more a result of a political regime. She uses Hong Kong, Singapore, and Taiwan (before 1988) as examples of fully legalized regime, semi-legalized regime, and non-legalized regime. The more supremacy of law a society appreciates, the more autonomy the anticorruption agency is likely to be given and corruption control is more likely to be independent from the preferences of the paramount leader and thereby tend to be more effective.

Hong Kong, under a fully legalized regime, has a separation of powers and checks and balances between the independent judiciary, the executive, and the law enforcement system. “The separation of powers gives rise to legalistic approach of corruption control agency, which becomes a fourth power specializing in checking abuse of power against other government branches.” The independent civil service and judicial system provide checks and balances against power abuse within the ICAC (Shang 2002: 264-265). In Singapore the Corrupt Practices Investigation Bureau (CPIB) works as part of the elected Prime Minister’s Office. The self-enforcement of the paramount leader to respect the separation of powers is more crucial for anticorruption in a semi-legalized regime such as Singapore. The public officers also face more rigorous rules for behavior and more coercive moral constraints than their counterparts in fully legalized regime. For the semi-legalized regime defines less clearly the boundaries for
government power and offers fewer balances and checks from other government branches (Shang 2002: 265). Finally, Taiwan (before 1988), under a non-legalized regime, is ruled through personalized bureaucracies. A non-legalistic secret police approach of corruption control is established, being non-autonomous under the personal control of a paramount leader, in contrary to the approaches of the first two regimes. Because of the difficulty to develop regulation of power and the inevitable patronage under personalized leadership, anticorruption is largely dependent on the charisma of the paramount leader, who had to lay down an unwritten code of ethics to guide government officials using his own personal behaviors (Shang 2002: 266).

Therefore, the strength and the effectiveness of anticorruption will be more conditional on the personal factors of the paramount leader in a society lacks of rule of a law.

Given the overarching Leninist political regime of mainland China, the chief leaders of the CCP are unquestionably less constrained than are the governors of Hong Kong. They are neither more constrained than the leaders of Singapore and Taiwan. Besides, China is territorially much larger than all the three political regimes and has a much larger official corps to regulate. How likely and how much China could emulate from the ICAC in Hong Kong is a big question. Based on some recent reforms of the DIC system, it seems China is probably moving closer to the model of CPIB in Singapore that is putting the anticorruption agency closer under the top
government to empower it and to give it more autonomy from the inspected.

The CDIC has made its discipline inspection agents seconded to various ministries and organizations more independent, in addition to directly appointing provincial DIC secretaries to several provinces. “In fall 2002, under an experimental scheme, the CDIC/Supervision Ministry began to exercise unified management over the discipline inspection team/supervision bureau being second to other ministries and administrations (Yang 2004: 226).” The experiment started in the Ministry of Health, the State (Food and) Pharmaceutical Administration, and the State Administration of Industry and Commerce and in 2003, it was extended to five other ministries/commissions.351 The discipline inspection agents in these government organs are empowered to directly deal with corruption cases without seeking the approval of leaders in the host workplace. The move is evidently intended to strengthen the monitoring of the key leaders of government ministries by reducing the influence of the host agencies (Yang 2004: 226). However, some inspection agents complain that this reform has actually put them in an awkward position. The CDIC/Supervision Ministry only directed the work and promotion of the seconded personnel, but salaries and related benefits are paid by the host ministries. The inspection agents

in those ministries were therefore not really cared by leaders in either system. The dual identity to “taking others’ money” on one hand, while “bugging the persons who pay” on the other, (na renjia qian, zhao renjia cha) has cost the inspectors’ a lot of energy in coordinating interpersonal relationship. Therefore, the legal status of the seconded inspection teams still needs to be sort out.352

In addition to legalization and a stronger commitment of the top leaders, the experiences of countries that successfully switched to cleaner government show that social consensus of anticorruption is indispensable for eliminating corruption. The intermittent collective protests and public opinion surveys indicate that China has not yet lost this kind of social consensus. What is needed is probably more “whistleblowers”, who are alert to official corruption and capable of reporting the crime. Whistle blowing no doubt requires personal integrity and courage, but it also depends on the social sentiment against corruption, which is shown to be able to grow, if being encouraged or in special circumstances. For instance, during the recently occurred Sichuan earthquake, the severity of the calamity and the huge amount as well as the wide participation of the donation has gripped unprecedented attention of the public to government usage of relief capital and resources. People’s sympathy to the sufferings and their sincere and,

for many, pretty big donation give them a strong sense of property right over the public goods, which in turn increases the incentives of the whole society to monitor the government officials. Supervision on the relief agencies, such as the Chinese Red Cross and local Red Cross, and prevention of embezzlement and wasting of relief resources are heatedly discussed online. The public opinion might produce limited pressure compared to that in democratic societies. But it at least creates a climate of supervision of government, which challenges the usually tolerated corruption, such as officials’ squandering banquets. Nevertheless, in the long run to maintain the social consensus of anticorruption and to encourage whistle blowing have to rely on institutionalization and legalization of anticorruption measures.
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