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## Corruption in China: Crisis or Constant?

*Resolutely punishing and effectively preventing corruption bears on the popular support for the Party and on its very survival, and is therefore a major political task the Party must attend to at all times.*

—Hu Jintao, October 15, 2007<sup>1</sup>

Since the spring of 1989, when anger over high inflation and “official profiteering” brought people out on the streets in support of student-led antigovernment demonstrations, the ruling party in China has recognized that the fight against corruption is a matter of life and death. Yet, two decades later, central authorities continue to face the intractable problem of corruption, especially at the local level. Deficient center-local relations is a major reason why central authorities have been unable to effectively check rising local-level corruption. Some observers suggest that the Chinese state is degenerating into a maze of local “mafia states,” as corrupt officials form alliances with criminal networks and use public authority for private plunder.<sup>2</sup> There is no shortage of highly publicized cases of high crimes and misdemeanors—the latest being the corruption scandal that brought down former politburo member, Shanghai Party Secretary Chen Liangyu.

Although some have concluded that either the Party is losing the war on corruption or its attack against it is a sham, evidence suggests that after worsening significantly during the 1980s and 1990s, corruption has remained at roughly the same level since about 2000.<sup>3</sup> As such, corruption appears to have transitioned from being a mounting crisis to becoming a constant threat, suggesting that, despite worrying losses, on the whole China’s economy will continue to pay little price: The problem has yet to undercut growth rates or deter foreign direct investment. While corruption does not appear an imminent threat to the Party’s ruling status, the political costs in terms of damage to the Party’s reputation and legitimacy over the long term do, however, bear watching.

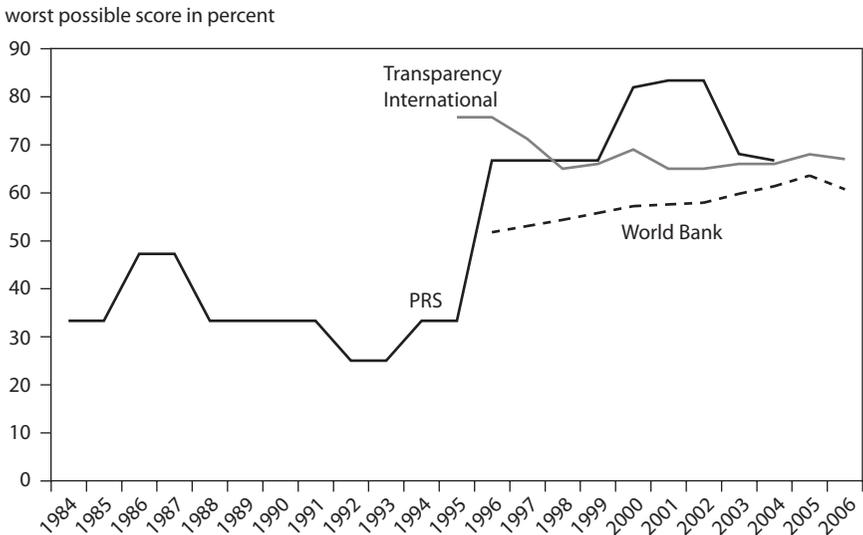
The Party faces tough policy choices in the next phase of China's modernization. The question is whether the leadership has the sufficient will and wherewithal to fully implement its current political-administrative reform policies and reconfigure center-local relations; make the system more responsive, accountable, and transparent; and allow for greater public participation and supervision in government on its path to "democracy with Chinese characteristics." The leadership's response will have an impact not only on curbing corruption but also on the future of the Party and the nation.

## Corruption Rising to a Plateau

There is no question that corruption is a serious problem in China. In the past two years, Chen Liangyu and two dozen other Shanghai officials have been charged with "lending" RMB4.3 billion from the municipal social security fund to real estate speculators. Officials linked to one deceased politburo member (Huang Ju) and one sitting member (Jia Qinglin) were detained on bribery charges. The former head of China's State Food and Drug Administration, Zheng Xiaoyu, was executed for accepting bribes to approve a substandard antibiotic that killed at least 10 people. Minister of Finance Jin Renqing lost his job after he was implicated in a sex-for-promotions scandal. And, Beijing Vice-Mayor Liu Zhihua was charged with corruption relating to the vast 2008 Olympics redevelopment project.

On the surface, it would seem that China is on the verge of a crisis.<sup>4</sup> Measuring corruption is, however, notoriously difficult. Neither "systematic" aggregate data nor anecdotal evidence drawn from high-profile cases is necessarily reliable or conclusive; moreover, many of the available indicators can be interpreted in different ways. Rather than showing corruption spiraling out of control, such "hard" indicators as the number of officials indicted and convicted of corruption suggest a distinct leveling off in the incidence of corruption in the past decade.

Experts' evaluations of corruption in China have also not changed dramatically in almost a decade (figure 5.1). Although the trend in the PRS Group data is sharply upward between 1995 and 1996, it flattens out in the later 1990s. Transparency International and World Bank indices also plateau during the same period. In addition, even though China's scores worsened during the 1990s, the perceived level of corruption in China was not extreme by global standards. Both Transparency International and the World Bank rank China in the middle two quartiles of score distribution, worse than average but not among the most corrupt states. Transparency International, in fact, shows it regressing toward the mean. Indeed, China dropped from being the fifth most corrupt out of 54 countries in Transparency International's 1995 Corruption Perceptions Index to 78 out of 158

**Figure 5.1 Perceived level of corruption in China, 1984–2006**

Notes: All indices are recalculated so that high scores correspond to high levels of corruption. PRS data measure the “risk” from corruption and not necessarily its level. For purposes of visual clarity, World Bank governance scores for 1997, 1999, and 2001, which are not estimated in the original dataset, were estimated based on the average of the previous and following years.

Sources: PRS Group, *International Country Risk Guide*; Transparency International, *Corruption Perceptions Index*, [www.transparency.org](http://www.transparency.org); World Bank Institute, *Worldwide Governance Indicators*, [www.worldbank.org/wbi/governance](http://www.worldbank.org/wbi/governance).

in 2005, 70 out of 163 in 2006, and 72 out of 179 in the 2007 index. These estimates put China on a par with countries including Brazil, India, and Mexico and above Russia and many of the newly democratized former Soviet republics.

High levels of corruption are not unique to the post-1978 reform period. Corruption was widespread during China’s imperial period and exploded during the later nationalist period. The Party launched anticorruption drives in 1951–52 and again in 1963–65, although in the turmoil of the Cultural Revolution it is difficult to estimate how prevalent corruption was. In this light, reforms in the 1980s did not necessarily produce a surge in corruption but rather allowed for it to return to earlier levels. The observed leveling off since the mid-1990s might thus be viewed as a return to an “equilibrium level” of corruption.

Although the incidence and extent of corruption may have leveled off, corruption can become more “intense” in the sense that the stakes involved rise or the extent of high-level corruption worsens, precisely what evidence suggests happened in China during the first two decades of reform.<sup>5</sup> Since roughly 2000, however, such steep increases in corruption in-

tensity appear to have given way to what might be interpreted as either a leveling off in intensity or a shift to more moderate increases.<sup>6</sup>

## Threat of “Local Kleptocracies”

Aggregate data presented in the previous section may suggest that corruption is not spiraling out of control, but are some segments of the state becoming “local kleptocracies”? Several recent cases display key characteristics associated with kleptocracy, chief among them being that of Chen Liangyu.<sup>7</sup> In September 2006, Chen was abruptly removed from office amid charges that he had arranged illicit loans to real estate developers, with RMB3.45 billion going to the Fuxi Corporation and RMB1 billion to Huawei Holdings. Both Fuxi and Huawei had strong political connections: Chen’s son Chen Weili managed Huawei’s Shanghai operations, and billionaire Zhang Rongkun controlled Fuxi, which in turn controlled a variety of real estate ventures. Zhang was accused of bribing Chen, other members of the Shanghai political apparatus, and various corporate managers.

Chen certainly was a “chief and a thief,” but it is not clear that he had converted the Shanghai apparatus into a graft machine. On the contrary, it appears that he and a relatively small circle of close associates were involved. Most of the senior leadership in Shanghai escaped Chen’s fall unscathed. More critically, the Shanghai scandal was part of a much wider phenomenon involving the misappropriation of public funds and corruption across China.

Real estate markets in Shanghai and other urban areas have been red hot for years, fueling high demand for land and investment capital while generating windfall profits for real estate speculators and developers. Under these conditions, it is hardly surprising that officials with access to large blocks of public funds might be tempted to misuse them. According to the State Auditing Administration, RMB4.8 billion in pension and social insurance funds was misappropriated between 2000 and 2006, including RMB1.02 billion in Guangzhou and large sums in Henan, Heilongjiang, Hunan, Zhejiang, and Sichuan.<sup>8</sup> The recent surge in big-money corruption cases can thus be seen as a “feeding frenzy” borne not out of kleptocracy but rather a flood of investment and speculation.

More worrying, however, is new evidence of two forms of corruption that could corrode the state’s viability as a governing institution and threaten the legitimacy of the Chinese Communist Party: rising venality of office and alliances between corrupt officials and organized crime, as well as indications that younger officials are increasingly involved.

In the past several years, buying and selling of offices has emerged as a major problem. Perhaps the best known case is the 2003 scandal in Heilongjiang, which revealed a network of bribes-for-jobs involving not only

local officials but also senior provincial officials, including the former provincial governor and later minister of land resources, Tian Fengshan. Ultimately, Tian received a life sentence for accepting RMB4 million in bribes from his subordinates.

Another area of concern is evidence of the criminalization of the state. Scholar Minxin Pei argues that the problem has become widespread and offers as evidence 50 cases of what he terms “local mafia states.”<sup>9</sup> Perhaps the most serious of these cases occurred in Xiamen, where a ring controlled by well-connected entrepreneur Lai Changxing smuggled RMB53 billion worth of petroleum, cars, cigarettes, and other goods into the country between 1996 and 1999 by buying off most of the municipal apparatus, several provincial officials, and even a vice minister of public security and the general in charge of the People’s Liberation Army General Staff’s military intelligence bureau. In all, over 600 people, including 360 officials and cadres, were said to be involved. Ultimately, 10 were executed and six received suspended death sentences.<sup>10</sup>

For a Party concerned about preventing rot within its own ranks and avoiding the fate of the former Soviet Union, another worrying phenomenon is that younger cadres are increasingly becoming involved in such crimes. In 2007, it was reported that more than 40 percent of those accused of graft and corruption in Guangzhou were well-educated, high-ranking officials under the age of 45.<sup>11</sup>

In sum, while there is evidence of collusion between officials, police, and organized crime, as well as police corruption, it is hard to determine the severity of the “local mafia state” problem. The roughly 50 cases reported in secondary literature, for example, are spread across some 15 years going back to the early 1990s. Even assuming that the small number of reported cases represents a fraction of the total, available data simply do not appear sufficient to signal that the “local mafia” problem is a serious threat to state integrity. Similarly, the number of officials reportedly punished is so small that it appears that the mafia state exists only in isolated localities and has not become a widespread problem.<sup>12</sup>

Nearly three decades of sustained rapid growth have transformed the Chinese economy and created vast wealth. Speculators and investors are making (and in some cases losing) fortunes. And China’s cadres are cashing in on the boom as well. They are skimming off a percentage of the government’s investment in new infrastructure, taking a cut from windfall profits from land transfers to private developers, and illegally lending public funds to cash-hungry investors.<sup>13</sup> There is little question that all this comes at a considerable monetary cost; it is estimated that corruption costs could be as high as 3 to 4 percent of China’s annual GDP, with corruption-related capital flight costing an additional 2 percent of GDP.<sup>14</sup> But the costs are borne in the context of a rapidly growing economy, which can, arguably, absorb the negative consequences of corruption better than an economy that is either stagnant or growing at a marginal rate.

In a perverse way, the lure of corrupt income is an incentive for cadres to keep the economic boom going. As such, corruption in China today is at least partially a byproduct of growth, not a barrier to it, as is so often the case. China also continues to attract more foreign investment than any other developing country: Total foreign direct investment, including capital flows to the financial sector, hit US\$82.7 billion in 2007, up 13.8 percent from 2006.<sup>15</sup>

Over the long term, however, as China's economic growth slows and it endeavors to move up the value chain, the economic costs of corruption could pose a more significant challenge. Moreover, the impact of corruption in the sociopolitical realm has not been benign. Public anger over official corruption has been the catalyst for much of the social unrest that has rocked China in recent years and the reason why the Party leadership acknowledges that it is a "life and death" issue.

## Is the Party Over?

Since the late 1990s, the number of officially reported "public order disturbances" has increased dramatically, from around 32,000 in 1990 to 87,000 in 2005.<sup>16</sup> In many cases, anger over local-government corruption has triggered protests, too often erupting into violent clashes between tens of thousands of protestors and police.<sup>17</sup> Most recently, "netizens" blamed the widespread power shortages and transportation problems during China's worst snowstorm in decades on local-level corruption. Public outcry over the collapse of school buildings due to shoddy construction during the Sichuan earthquake likewise prompted nervous officials to promise a thorough investigation and punish those responsible.<sup>18</sup>

Perhaps the most prevalent cause of widespread social unrest is anger over the expropriation of farmland by local officials with little or no compensation to the displaced, often in collusion with developers. In January 2008, it was reported that 2,700 officials had been referred for prosecution on land use violation charges and that over 31,000 cases were under investigation.<sup>19</sup> The May 2007 incident in which police were called in to remove villagers who had laid siege to and then looted the homes of officials in 13 villages in Guangdong Province they suspected of engaging in corrupt land deals<sup>20</sup> is an example of the stories that appear almost daily in the local Chinese press. More worrisome for the authorities—given China's historical link between peasant-led rebellion and regime change—in an apparent organized challenge to official policy: Farmers from Heilongjiang, Shaanxi, Jiangsu, and Tianjin published declarations on the internet in December 2007 claiming ownership of all land in their villages, including land requisitioned by the local government. In response, the State Council issued a notice reiterating opposition to any form of privatization or illegal seizure of farmland and rounded up those responsible for the internet postings.<sup>21</sup>

Thus far, most of the incidents of social unrest remain localized and have been quickly suppressed. Corruption has produced hot spots of unrest, but these flare-ups have failed to set off major wildfires. Most important, there is little evidence that anger over corruption has reached critical levels in cities. So far, the central leadership has been able to cast itself as an opponent of corruption and defender of the “little guy” who bears the brunt of local-level malfeasance.

Nevertheless, in the event of a serious economic downturn or a surge in inflation as happened in 1989, corruption could become a more volatile political factor. More insidious is its long-term potential to undermine the Party’s reputation and legitimacy if the public perceives Beijing as being incapable of enforcing its own policies and providing basic public goods, including clean government. In the *2007 Blue Book on China’s Society*, published by the Chinese Academy of Social Sciences, cadres surveyed continued to list corruption among their top three concerns.<sup>22</sup> Aware of the high stakes, the central leadership continues to prioritize anticorruption efforts, though to what effect will be discussed in more detail below.

## Causes of Corruption Debated

Not surprisingly, corruption has featured prominently in the debate among Chinese intellectuals, with various sides proffering their views on the causes and solutions. It is generally agreed that China’s economic reforms, particularly market liberalization in the post-1992 period, opened up more opportunities and provided more incentives for corruption. Traditional reliance on *guanxi* or social connections that blur the line between legal and illegal behavior spread unchecked, filling the vacuum that emerged as norms and values that had previously guided economic and social behavior evaporated during the early stages of reform. At the same time, decentralization in the 1980s and early 1990s amid lagging political system reform, particularly legal reform, expanded local officials’ power over funds and resources, giving them more opportunity to engage in corruption, and seriously weakened the central government’s ability to combat corruption. Perhaps nowhere are the deficiencies in center-local relations more evident than in the difficulties Beijing has encountered in fighting corruption at the local level, where officials continue to skirt rules and conceal wrongdoing. Given the risk-reward ratio, lack of moral restraints, and official emphasis on rapid growth and wealth accumulation, it is little wonder that corruption has flourished.

Intellectuals, however, widely disagree on the solution to China’s corruption; their disagreements center on the role of the Party/state in the economy as well as the pace and scope of political reform. In brief, those on the “Right” argue that Party/state interference distorts the market, breeds official corruption and rent-seeking behavior, and obstructs further

reform. In calling for more rapid economic privatization, marketization, and a reduction in the role of the Party/state, many also call for wider and more rapid political reform, citing China's lack of democracy as the root cause of corruption. In contrast, "New Left" intellectuals see neither the free market nor democracy as a panacea, calling instead for a reassertion of the state's role in correcting market failures and better addressing the sociopolitical problems that have emerged in the course of modernization. While calling for political reform, they eschew Western liberal democratic mechanisms—pointing to corruption in countries that have experienced rapid political transitions such as Russia and the former Soviet republics, as well as established democracies such as India and the Philippines. As Yan Sun notes, while the Party's anticorruption policy has proceeded "economically in the direction desired by the new right, it proceeds politically in the direction urged by the new left . . . though in neither case as much as each group would like to see."<sup>23</sup>

## Combating Corruption—Is China Campaigned Out?

By the mid-1990s there was widespread concern that decentralization was adversely affecting China's socioeconomic and political development. Granting more autonomy to local officials expanded their monopolistic and discretionary powers over budgets, resources, and investment decisions—increasing the opportunities and incentives to engage in corruption while simultaneously weakening the central government's ability to combat these abuses. The subsequent effort to recentralize, especially the tax reforms adopted in 1994, administrative restructurings, downsizing of China's vast bureaucracy, and attempts to create a professional civil service system, has helped the Party reassert control. However, as discussed in chapter 4, problems in implementing central policies at the local level persist; local officials continue to face the challenge of balancing what are often competing demands from Beijing with those of their local constituents and seek to circumvent central commands or ignore "unfunded mandates."

It would be a mistake, however, to conclude that China has devolved into a "decentralized predatory state," in which a self-interested political-economic elite is perpetuating the existing order and obstructing further reform.<sup>24</sup> The central leadership is fully aware of the challenges facing China and has proven remarkably flexible and willing to experiment with solutions, although with varying degrees of success.

Since 1989, the Party has launched a series of high-profile anticorruption campaigns. In 2005, it launched an old-style rectification campaign partly to address corruption but also the "moral degeneration" of its members. While there are indications that such campaigns bolster the image of Beijing as an anticorruption crusader, there is little evidence that they actually help stem the problem. Such campaigns are primarily aimed at

abuses that undermine the economy—such as the illegal privatization of state property—and less frequently address crimes that provoke public resentment such as “official profiteering” and extraction of illegal fees from residents. Moreover, these campaigns actually undercut the institutionalization of the legal system in China, as Party censure and disciplinary measures often replace criminal prosecution.<sup>25</sup> The overlapping functions of the Party’s Central Commission for Discipline Inspection (CCDI) and people’s state procuratorates (state organs of legal supervision), not to mention oversight from local governments, which continue to appoint cadres to these procuratorates—a system in which the offenders are de facto policing themselves—further undermine attempts to curb corruption.

Nevertheless, in April 2008 the Party announced that it would launch another five-year anticorruption campaign in 2008,<sup>26</sup> and in May, it initiated another education campaign exhorting cadres to “be the Party’s loyal guards and the masses’ close friends.”<sup>27</sup> Closer inspection reveals that the Party recognizes that, alongside traditional campaigns, more fundamental if risky political-administrative reforms are necessary to root out corruption. Veteran leader Chen Yu summed up the dilemma facing the Party: “Fight corruption too little and destroy the country; fight it too much and destroy the Party.”

In 2007, China established a National Bureau of Corruption Prevention (NBCP), which circumvents local governments and reports directly to the State Council. Focusing on prevention rather than punishment, the NBCP inspects anticorruption work at various levels, closing loopholes in the current system and standardizing policies for anticorruption work. While it has taken a step in the right direction, China still has much to learn from the examples of Singapore and Hong Kong in firmly establishing the rule of law, a truly independent anticorruption agency, and what the Organization for Economic Cooperation and Development (OECD) has termed an “ethics infrastructure,” including effective accountability mechanisms, in order to win the war on corruption. Likewise, China should allow the media to play its role as watchdog. Too often the Party has allowed reporting on local-level malfeasance only to clamp down when reporters begin to uncover cases it does not want reported.

Enhancing the investigative authority of the State Auditing Administration, new regulations reducing officials’ discretionary power, and controls on cash transfers as well as improvements in the transparency and accountability of state-owned enterprises are also encouraging moves. In addition, the Party announced a major reshuffle of provincial-level judicial officials in January 2008 after it admitted that “China’s judicial and procuratorial system has been successively plagued with major graft incidents involving several provinces.”<sup>28</sup> However, as long as local Party officials retain authority over the judicial system through the political-legal committees and the selection of personnel through the *nomenklatura*<sup>29</sup> system, the problem of undue influence will remain.

To address public anger over official corruption, the Supreme People's Procuratorate announced in May 2008 that rural officials would come under greater scrutiny to protect farmers' interests from corrupt bureaucrats.<sup>30</sup> This move follows central government land policies launched in 2006—notably the establishment of a National Land Superintendency—aimed at addressing expropriation of farmland and corruption at local levels by altering the way land markets operate, reducing local-government discretionary power, and reasserting central authorities' oversight.<sup>31</sup>

The central leadership also recognizes the role of the public and even the media in supervising cadres, especially at the local level; a Central Party School publication recently stated that “public administrators must face it and adapt to it.”<sup>32</sup> In a speech on anticorruption, Premier Wen Jiabao called for “soliciting public opinions or holding hearings so as to enhance public participation and receive public supervision” and said that “governance transparency should be further improved to safeguard the public rights to knowledge, participation, expression and supervision.”<sup>33</sup>

Experiments with public participation and “democratic consultation” are under way, most notably in Wenling City, Zhejiang Province and Wuxi, Jiangsu Province.<sup>34</sup> When the NBCP launched its website soliciting input from the public in December 2007, it crashed due to the overwhelming response from the public. The Party certainly needs to respond to an increasingly “rights conscious” public frustrated with official corruption if it is to maintain the perception that it is capable of providing basic public goods including clean government.

## Conclusion and Recommendations

The central leadership faces tough policy choices: Reforms necessary to curb corruption—and maintain Party legitimacy and ruling status over the long term—could prove a slippery slope. As long as the Party remains above the law and free to police itself, particularly at the local level, corruption will remain rampant. An independent judiciary—or at a minimum an independent anticorruption agency reporting directly to the central leadership—needs to be instituted. While the experiences of countries that have undergone rapid transition to liberal democracy suggest that it is not a panacea, there is certainly room for enhanced accountability and transparency and an increased role for the media and public in supervising government—reforms the Party has in fact promised to implement.

As discussed in chapter 3, Shenzhen—China's first special economic zone, where economic reforms were first implemented—could once again be the first to experiment with what, if implemented, could be far-reaching political reforms.<sup>35</sup> To fight corruption, the municipal government's reform plan published online in May 2007 calls for following the example of Hong Kong's Independent Commission Against Corruption (ICAC): passing spe-

cial legislation in the zone to carry out anticorruption work, expanding the role of public supervision, and guaranteeing the autonomy of the media in reporting on corruption cases. Officials from Shenzhen have reportedly spent time with the ICAC in Hong Kong, and an independent anticorruption agency could be established in the zone as an experiment.

The United States can certainly play a constructive role in China's anti-corruption battle. Indeed, the US government and US nongovernmental agencies have been instrumental in the construction of China's legal system and the ongoing implementation of the rule of law. A number of Chinese intellectuals compare present-day China with 19th century America—with its robber barons and Tammany Hall politics—and acknowledge that China can learn a lot from the American experience in combating corruption and establishing clean government.<sup>36</sup>

## Notes

1. Xinhua News Agency, "Hu Jintao zai Zhongguo gongchandang di shiqi ci quanguo daibiao dahui shang de baogao" ["Hu Jintao's Report to the 17th Party Congress"], October 15, 2007, <http://news.xinhuanet.com>.
2. Minxin Pei, *China's Trapped Transition: The Limits of Developmental Autocracy* (Cambridge, MA: Harvard University Press, 2006).
3. Andrew Wedeman, "Corruption: Crisis or Constant?" (background paper for China Balance Sheet project, Peterson Institute for International Economics and Center for Strategic and International Studies, January 28, 2008), [www.chinabalancesheet.org](http://www.chinabalancesheet.org).
4. The CCDI reported that as of June 2007, it had investigated 24,879 cases involving bribes totaling over RMB6 billion. Xinhua News Agency, "Quanguo chachu shangye huilu an 24,879 jian" ["Across the Country 24,879 Cases of Commercial Bribery Have Been Investigated and Prosecuted"], August 19, 2007. In March 2008, it was reported that the procuratorate investigated more than 209,000 officials from 2002 to 2007, down 13.2 percent from the previous five years, in almost 180,000 cases of embezzlement, bribery, dereliction of duty, and rights violation, down 9.9 percent during the same period; the number of convictions rose 30.7 percent to almost 117,000. See Xinhua News Agency, "Zui gao renmin jianchayuan gongzuo baogao" ["Supreme People's Procuratorate Work Report"], March 22, 2008, <http://news.xinhuanet.com>.
5. Gong Ting, "New Trends in China's Corruption: Change Amid Continuity," in *China's Deep Reform: Domestic Politics in Transition*, eds. Lowell Dittmer and Guoli Liu (Lanham, MD: Rowan & Littlefield, 2006); Andrew Wedeman, "The Intensification of Corruption in China," *China Quarterly*, no. 180 (December 2004): 895–921.
6. For detailed discussion and data, see Wedeman, "Corruption: Crisis or Constant?"
7. Wang Hongyi, "Six More Jailed in Shanghai Fund Scandal," *China Daily*, September 27, 2007; Bill Savadove, "City Assets Boss in Shanghai Scandal," *South*

*China Morning Post*, October 24, 2006; Bill Savadove, "How Shanghai Fell Down the Vice Pit," *South China Morning Post*, October 20, 2006; Albert Cheng, "Fighting the Wrong Fights," *South China Morning Post*, December 9, 2006; Lilian Yang, "Cadres Tied to Almost Half of City's Graft Cases," *South China Morning Post*, January 24, 2007; Xinhua News Agency, "Investigation of Shanghai's Billionaire Confirmed Underway," June 4, 2003; Xinhua News Agency, "Senior Chinese Leader Calls for Effective Discipline Inspection System," July 2, 2003; Xinhua News Agency, "Mayor Says Shanghai Has Retrieved All Embezzled Pension Funds," January 28, 2007; Xinhua News Agency, "Commentary: CPC Discipline Watchdog Cracks Down on Officials' Collusion with Businesspeople," January 21, 2007; *Caijing*, "Shanghai Pension Scandal: A Web of Business and Bribes," September 25, 2007; James Kyngge and Richard McGregor, "Chinese Scandal of Missing Fund Deepens," *Financial Times (London)*, June 9, 2003; Geoff Dyer, "Shanghai 'Scandal' Exposes Darker Side of the Economy," *Financial Times (London)*, September 14, 2006.

8. Tschang Chi-Chu, "\$1.4b Taken from State Social Funds, Say Auditors," *Straits Times*, November 25, 2006; Xinhua News Agency, "Chinese Audit Report Reveals Theft of 7.1 Bln Social Security Funds," November 23, 2006; Minnie Chan, "Millions Missing from Hunan Pension Fund," *South China Morning Post*, April 8, 2007. Pension funds in China total roughly RMB330 billion, of which RMB230 billion are in the national social security system and RMB100 billion are in various local pension funds including corporate pension funds; Agence France Presse, "China to Centralize Pension Funds after Shanghai Scandal Report," September 26, 2006; and Joseph Kahn, "China Graft Case Snares a Party Boss," *International Herald Tribune*, September 26, 2006.

9. Pei, however, defines this term loosely, and in reality only 32 cases involved officials colluding with organized crime. The other cases involved offenses such as "collective bribery" (7 cases), venality of office (6 cases), bribery and embezzlement (4 cases), and counterfeiting (1 case).

10. *People's Daily*, "Details of Xiamen Smuggling Case Exposed," July 26, 2001.

11. *China Daily*, "Graft, Corruption Cases Have Younger Profile," December 5, 2007.

12. In 2006, a total of 178 police officers were convicted on criminal charges and 273 members of the procuratorate were disciplined for corruption and misconduct. Of these, however, 47 officials were prosecuted for involvement with organized crime; see Xinhua News Agency, "Chinese Courts Convict 178 Police on Criminal Charges," February 8, 2007.

13. Ironically, it is likely that these funds would have been lent to developers anyway, but rather than being lent directly by the fund managers, they would have been improperly lent by the banks in which pension funds are supposed to be deposited: In 2006 auditors uncovered RMB767 billion in irregular lending by banks and other financial institutions. See Rob Delany, "China Tells Banks: Get Tough on Bribery," *International Herald Tribune*, July 17, 2006.

14. Yan Sun, "Corruption, Growth, and Reform: The Chinese Enigma," *Current History* 104, no. 683 (September 2005), 257; see also *South China Morning Post*, "Graft Costs 3pc of GDP: Study," April 12, 2008.

15. *China Daily*, "Nation Top Draw for FDI in 2007," January 22, 2008.

16. According to official Chinese sources, the number of more narrowly defined “mass incidents” fell by 22 percent in the first 10 months of 2006 to 17,900. In 2008, it was reported that “figures of mass incidents and participants decreased by 2.7 percent and 17.1 percent, respectively” in 2007, without further elaboration. See Xinhua News Agency, “China’s Public Security Organs Promote Safety,” April 20, 2008, [www.chinapeace.org.cn](http://www.chinapeace.org.cn).
17. In March 2007, one person was reportedly killed when over 20,000 people clashed with police during a protest over public transportation fee hikes in Yongzhou, Hunan. See *South China Morning Post*, “Over 20,000 Villagers Clash with Police in Protest,” March 12, 2007.
18. Xinhua News Agency, “China Vows Firm Hand on Graft, Malfeasance in Quake Relief,” May 20, 2008, <http://news.xinhuanet.com>.
19. Xinhua News Agency, “2,700 Officials Referred for Prosecution on Land Use Violations,” January 22, 2008.
20. Lu Geng Song, “Zhongguo weiquan da shiji 2007 nian 4 yue 20 ri zhi 5 yue 20 ri” [“Achievements in Protection of Human Rights in China: 4/20/07–5/20/07”], Human Rights in China, [www.renyurenquan.org](http://www.renyurenquan.org).
21. *Financial Times*, “December Chinese Peasant Protest New, Serious Challenge to the Party,” February 19, 2008.
22. Chinese Academy of Social Sciences, *2007 Zhongguo Shehui Xingshi Fenxi Yu Yuce (Shehui Lanpishu)* [2007 Analysis and Forecast on China’s Social Development (Blue Book of China’s Society)] (Beijing: Social Sciences Academic Press, 2008), 143–54.
23. Yan Sun, “Corruption, Growth, and Reform.”
24. Dali Yang, “China: Suffering From Growth Pains or Doomed to Stagnation,” in *Is China Trapped in Transition? Implications for Future Reforms* (The Foundation for Law, Justice and Society, 2008), [www.fljs.org](http://www.fljs.org).
25. For an excellent discussion of these issues, see Melanie Manion, *Corruption by Design: Building Clean Government in Mainland China and Hong Kong* (Cambridge, MA: Harvard University Press, 2004).
26. *Dongfang Zaobao* [Eastern Morning Edition], “Zhongguo zhengzhiju tongguo fanfu wu nian gui Hua” [“The Politburo Approves an Anti-Corruption Five-Year Plan”], April 28, 2008, <http://news.hexun.com>.
27. Xinhua News Agency, “Zhongjiwei Jianchabu jiu kaizhan’zuo dang de chengken weishi, dang qunzhong de tiexin ren’ huodong dawen” [“The Central Commission for Discipline Inspection and the Ministry of Supervision Launch the ‘Be a Loyal Protector of the Party and a Confidant of the People’ Campaign”], May 5, 2008, <http://news.xinhuanet.com>.
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