

# CHINA BALANCE SHEET

## CORRUPTION

The direction that China and U.S.-China relations take will define the world's future. For the United States, a rising China increasingly affects American prosperity and security, calling for some clear-eyed thinking and tough economic, political, and security choices. As the twenty-first century unfurls, the stakes have never been higher for getting U.S. policy toward China right. By untangling the complex, sometimes contradictory, strands of this vast and dynamic country, *China: The Balance Sheet* lays the foundation for informed and effective U.S. policy toward China, the world's emerging superpower.

### BACKGROUND

- **In tandem with stellar economic growth, corruption has increased dramatically in China.** According to Transparency International's Corruption Perceptions Index 2006, China scored a 3.3 on a scale of 1 to 10, with 10 being least corrupt — ranking 70th out of 163 countries surveyed, on par with Brazil, Egypt, and India.
- Since 2002, some **30,000 officials have been found guilty of corruption**, affecting 32 government agencies.
- In March 2007, it was disclosed that:
  - 9 provincial and ministerial level officials were among the 825 senior officials convicted for corruption in 2006.
  - A further 40,041 government employees were under investigation for corruption and dereliction of duty in 2006.
  - Some 2,987 judicial officials were also being probed for bribery and abuse of power.
- In the financial sector, **China punished more than 1,600 employees of financial institutions** in the first half of 2005 for fraud and other related crimes. Of these, 570 managers and branch heads have been imprisoned or fired.
- **Corruption is also rife in the construction and real estate sectors**, where huge investment in new infrastructure projects creates numerous opportunities for corruption and where the shady requisition of land for such projects has become a major source of growing social unrest in rural China.

For further information, see Chapter 3:

“China's Domestic Transformation: Democratization or Disorder?”

*China: The Balance Sheet: What the World Needs to Know Now about the Emerging Superpower*

Authors: C. Fred Bergsten, Bates Gill, Nicholas R. Lardy and Derek Mitchell

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# CORRUPTION

## CURRENT SITUATION

- **The central authorities have repeatedly attempted to clamp down on corruption in recent years, including through high-profile investigations** — beginning in 1995 with former Politiburo member Chen Xitong and most recently in September 2005, with the arrest of Shanghai Mayor Chen Liangyu.
- A series of anti-corruption campaigns, even including an old-style rectification movement aimed at addressing the general “moral degeneration” of Party members, has been launched to address the problem.
- Survey evidence shows that public satisfaction with the anti-corruption drive increased from 33 percent in 1996 to 52 percent in 2003.
- Yet lack of enforcement continues to stymie the central authorities’ anti-corruption efforts, especially at local levels.
- **Corruption persists because officials and powerful businesspersons can get away with it:** The Chinese political and legal system lacks across-the-board accountability, checks and balances, competency (let alone independence), and even a quasi-independent anti-corruption agency.
- More broadly and troubling, the main causes of corruption may be structural, arising from the economic distortions as society shifts from a state-centric to a more market-oriented system.
- More worrisome still is the possibility that corruption is so deeply engrained and lucrative that occasional enforcement campaigns are not sufficient to build the necessary “ethics infrastructure,” but are rather purely political efforts to portray the Party as “doing something.”
- Although economic losses corruption causes are astonishing— as high as an estimated \$84.4 billion or 5 percent of GDP—China’s economy pays little price and foreign direct investment continues to pour in; FDI for 2005 amounted to \$60.3 billion.

## IMPLICATIONS

- The Party’s inability to control corruption has undoubtedly damaged its reputation; however, the problem does not yet pose an imminent threat to the Party’s ruling status.
- The central leadership, with its open appeals to combat corruption, has been largely successful in casting itself as an opponent of corruption and defender of the “little guy” who bears the brunt of local-level malfeasance.
- This approach can probably be sustained as long as economic prospects are good for the majority of citizens, the Party continues its high-profile anti-corruption campaigns, and disgruntlement arising from official wrongdoing remains localized and contained.

### Notable Corruption Cases

*April 1995: Former Beijing Party secretary and Politiburo member Chen Xitong investigated for corruption; Vice-Mayor Wang Baosen committed suicide just before the scandal erupted.*

*September 2000: NPC Vice Chairman Cheng Kejie executed for taking bribes amounting to \$5 million.*

*March 2005: China Construction Bank (CCB) Chairman Zhang Enzbao resigned after reportedly receiving \$1 million in kickbacks from a U.S. software company.*

*December 2005: Former Minister of Land and Resources Tian Fengshan convicted of taking \$545,000 in bribes.*

*September 2006: Former Shanghai Mayor Chen Liangyu is fired and arrested for corruption.*

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*“Corruption damages the interests of the people and the close links between the Party and the people, weakens the governance base and capability of the Party, affects social stability and disturbs the general situation of reform, development and stability.”*

*— Premier Wen Jiabao, February 2005*

*“All officials are corrupt, but as long as they can do some good for the masses, then we can forgive them.”*

*— Local’s comment on the sentencing of Shenyang Mayor Ma Suixin for corruption, August 2002*