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China 's Losing Battle Against Corruption

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CHINA's rulers rarely wash their dirty linen in public. So the arrest of Politburo member and Shanghai Communist Party boss Chen Liangyu on corruption charges has sent shock waves across the country. Some speculate that the arrest is really part of a power struggle, with President Hu Jintao demonstrating his authority against a local power broker who had thwarted national policy.

Whatever the truth behind Chen's fall, and despite the widening corruption probe of other senior government officials, data and evidence recently released by the government and multilateral institutions suggest that the authorities are fighting a rearguard battle against a rising tide of graft.

Consider the grim statistics recently released by the Supreme People's Procuratorate (SPP). More than 42,000 government officials on average were investigated for corruption every year from 2002 to 2005, with more than 30,000 per year facing criminal charges.

These startling figures do not include economic crimes outside the public sector. For example, in 2005 alone, the China Banking Regulatory Commission (CBRC) unearthed irregularities involving misused funds of RMB767.1 billion ($93.7 billion). The CBRC uncovered 1,272 criminal cases and disciplined 6,826 bank employees (including 325 senior managers). According to Ye Feng, a SPP Director-General, "[a]lmost every type of financial institution has seen the emergence of criminal cases involving the solicitation of bribes in return for loans."

Despite the government's intermittent anti-corruption campaigns, progress has been slow. On the contrary, as Ye has candidly acknowledged, the number of corruption cases "has continued to rise". Indeed, international measures of graft show that the authorities may be reaching a stalemate or even retreating in the fight. Transparency International's Corruption Perception Index, the most widely-used benchmark to gauge businessmen's and experts' beliefs about the extent of corruption in various countries, ranked China 78th out of 158 countries in 2005 – not much improvement from 2000.

Indeed, among the World Bank's six "Governance Indicators," China's scores on the "Control of Corruption" index have actually slipped in recent years, from -0.20 in 1998 to -0.40 in 2002 and -0.69 in 2005. In 2005, the World Bank ranked China 142nd out of 204 countries on the "Control of Corruption" index.

While the economic toll of graft cannot be precisely quantified, indirect evidence suggests that the costs are significant. Multinational executives frequently cite China as their favourite investment destination, but many of them also complain about rampant graft. According to the World Bank's "Investment Climate Surveys", 27% of nearly 4,000 firms doing business in China in 2002-03 described corruption as a "major constraint" on their commercial operations, while 55% reported that they had paid bribes to government bureaucrats and/or local business partners to get things done.

Likewise, Hu Angang, an economics professor at Beijing's Tsinghua University, has estimated that corruption in 1999-2001 alone caused economic losses worth RMB1,293 billion ($156 billion), or 13.2% of GDP. Not surprisingly, the financial services sector suffered the most from corruption, losing RMB547 billion (6.25% of GDP). Fraudulent public expenditure cost 2.4% of GDP, siphoning off privatization proceeds amounted to almost 2.1% of GDP, and smuggling caused losses of more than 1.1% of GDP. The Chinese government has neither censored nor refuted Hu's dreadful findings.

The biggest obstacle to fighting graft is the weakness of the judiciary, especially at sub-national levels. Since most government corruption occurs at the county, township and village levels, it usually involves abuses of power by local officials. However, since these petty bureaucrats' power is almost absolute, they also control the channels for addressing grievances. Indeed, among the World Bank's six "Governance Indicators," China's score on the "Rule of Law" index has also slid in recent years, from -0.28 in 1998 to -0.47 in 2005, when China ranked 124th out of 208 countries in this category.

With little recourse to legal means, an increasing number of frustrated victims of graft resort to extra-legal measures such as strikes, demonstrations, and sit-ins in order to gain media and public attention. Some even carry their fights to the provincial and central authorities, stoking a sharp rise in the incidents of "public order disturbances" nation-wide. Whereas the Ministry of Public Security reported only 8,700 such disturbances in 1993, by 2005 the number had jumped ten-fold, to 87,000.

Needless to say, government mishandling of such disturbances, or a decision to repress them with force, would only fuel further social discontent. In fact, the government's success in clamping down on corruption, especially at sub-national levels, will be a litmus test of its legitimacy. To fail would risk igniting a severe political backlash, including a spontaneous escalation of anti-regime activities.

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