Yuen Yuen Ang

Chinese corruption actually fuels growth – but at a steep cost.

By Shannon Tiezzi

“China is corrupt” – that simple, and often unquestioned, statement hides a deceptively complex web of assumptions. It’s easy to say a country is corrupt; far harder is defining that corruption, measuring it, and trying to understand the complicated relationship between corruption and economic growth. That’s the monumental project undertaken by Yuen Yuen Ang in her latest book, *China’s Gilded Age: the Paradox of Economic Boom & Vast Corruption*. Ang is a professor of political science and an Andrew
Carnegie Fellow as well as the author of *How China Escaped the Poverty Trap* and *China’s Gilded Age*.

Her new book is especially timely, as the COVID-19 pandemic has cast a harsh spotlight on China’s political system even while calling into question its (and the world’s) continued economic growth. Below, *The Diplomat* interviews Ang about her research into corruption in China, its impact on the economy, and the connection to the country’s handling of the novel coronavirus.

**In short, according to your research, why has China’s economy grown so fast for so long despite massive corruption?**

Not all corruption dampens growth, nor do they cause the same kind of harm. The *type* of corruption that prevails in China – what I call “access money” – has spurred rapid growth, and even over-investment in speculative sectors, while producing serious risks for the economy and political system.

In order to make sense of the paradox of corruption and economic boom, we must first challenge the deeply held assumption that all corruption impedes growth. Such a fallacy is being reinforced by global indices of corruption – notably, the Corruption Perception Index (CPI) – which measures corruption as a one-dimensional problem: one score for every country. Consistently, in these indices, poor countries rank at the bottom and rich countries at the top, which gives the simplistic impression that corruption must always hurt economic growth.

The likes of CPI fail to *unbundle* corruption into qualitatively different types. My book provides this unbundling, by advancing a typology of four distinct types of corruption (access money, speed money, petty theft, and grand theft) and then measuring it across 15 countries, including China, in a pilot expert survey. I call this alternative measure the Unbundled Corruption Index™ (see Chapter 2 of *China’s Gilded Age* and my November 2019 article in *Global Perspectives*, “Unbundling Corruption.”)
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Unbundling corruption in four types.

From China’s Gilded Age, Chapter 1, p. 9

This simple – yet hitherto unperformed – exercise reveals that China's structure of corruption is indeed distinct from other corrupt states such as India and Nigeria. For example, a comparison of India and China below shows that although the two countries have identical CPI scores, their patterns of corruption diverge. In India, *speed money* (paying petty bribes to overcome delays) dominates, whereas in China, *access money* (elite exchanges of power and wealth) is more prevalent.
Access money is the steroids of capitalism. Steroids are known as “growth-enhancing” drugs, but they come with serious side effects. In China, by enriching capitalists who pay for privileges and by rewarding politicians who serve capitalist interests, access money has perversely stimulated commercial transactions and investment, which translates into GDP growth. At the same time, this corruption distorts the allocation of resources – for example, by incentivizing politically connected businesses to overinvest in real estate – breeds financial risks, and exacerbates inequality.

Therefore, the right way to understand China’s economy is that it’s not just a high-growth economy, but also an imbalanced and unequal economy. This reflects the prevalence of access money.
Why has Xi Jinping spearheaded a high-profile anti-corruption drive since assuming China’s top post? Has Chinese governance markedly changed under this drive?

Indeed, for President Xi Jinping, fighting corruption is a cornerstone of his reign. A big reason is that he took office under perilous circumstances linked to corruption and factional rivalry. In 2012, Bo Xilai, Chongqing’s former Party secretary and one of Xi’s competitors for the top seat, was ousted, following a shocking scandal involving graft, murder, and a police chief’s escape to the U.S. embassy.

When Xi delivered his first speech before the Politburo (the elite body of the CCP), he warned that corruption had festered to a point of crisis and would “doom the party and the nation” if left untreated. Since then, Xi has launched the most vigorous anti-corruption campaign in his Party’s history. To date, it has disciplined more than 1.5 million officials.

What are the effects of this crackdown on the bureaucracy? In Chapter 6 of China’s Gilded Age, I conducted an analysis of the career paths of 331 city-level Party secretaries (the first-in-command of city governments) who were in office in 2011. Two patterns stand out. First, local leaders faced a high turnover rate – 16 percent were investigated for corruption – indicating an unusually volatile and stressful environment. Second, performance did not protect local officials from downfall, only patronage – whether the provincial Party bosses who appointed them survived the crackdown – did.
These findings suggest both a chilling climate in the bureaucracy and one in which having the right ties mattered more than doing the right thing. Bureaucratic inaction became so widespread that it inspired a Chinese term: “lazy governance” (lanzheng). The State Council publicly warned against it by shaming individual officials for dereliction of duty, delaying decisions, and leaving funds unused.

To be clear, Xi deserves credit for taking on the festering crisis of corruption, while previous leaders have swept it under the rug. If he successfully reins in crony capitalism, this will help create a fairer, cleaner business environment for China’s long-term growth. The problem is that his crackdown has gone beyond policing corruption and has expanded to emphasize conformity to the Party
line and personal loyalty. Its sweeping and draconian nature has also terrified bureaucrats into inaction.

Right now, the world is consumed by the COVID-19 pandemic, which has brought new attention to China’s political system. What role does corruption play in China’s response to crises – in this case, the emergence of a new contagious disease?

Thank you for a timely question. Following up on my previous response, during COVID-19, it was actually the opposite of corruption – bureaucratic inaction and paralysis – that shaped the regime’s initial response to the outbreak. I discussed the political dynamics leading up to this pandemic in an article in *Nature Human Behavior*, “When COVID-19 Meets Centralized, Personalized Power.”

Compared to SARS in 2002-3, during COVID, the chain of command appears more centralized, going straight up to the top leader. This meant that governmental responses hinged upon Xi’s decisions: no one could move until he gave the green light, but it jolted into dramatic action once he did.

Moreover, whereas local officials are routinely blamed for systemic failures, during COVID, we witnessed an unprecedented public display of “passing the buck” between central and local authorities. Wuhan’s mayor revealed on live TV that he was not authorized by higher-ups to publicize the outbreak – and surprisingly, he was not fired. In a centralized, tightly controlled bureaucracy, the mayor could defend himself by strictly following protocol, even though this meant costly delays on the ground.

With this in mind, we can better understand China’s sudden swerve from inaction and cover-ups to strong, national mobilization after January 23 (the day Wuhan was locked down). We can also appreciate Xi’s outsized personal role in both the failures and successes of his regime.

**Studying corruption is hard, as corruption is inherently a secretive activity – all the more so in China’s authoritarian setting. How do you go about studying corruption?**
You’re right, studying corruption is immensely challenging, but it’s not impossible. What I try to do in this book is to present the best available evidence or insights from a wide range of sources. For example, in Chapter 2, to compare China’s corruption structure to other countries in a systematic – rather than subjective – way, I conducted my own survey to measure the levels of different types of corruption across countries. Only with such data can we meaningfully conclude that China’s structure of corruption is indeed different from, say, Russia’s, Nigeria’s, or the United States’.

I also strive to go beyond metaphors and demonstrate with evidence how certain political dynamics work. Take my argument on “profit-sharing” – namely, that bureaucratic actors in China benefit personally from economic development and thus restrain themselves from excessive predation. While others have previously expressed similar ideas (for example, the famous economist Mancur Olson described it using the metaphor “stationary bandit”), the hard part lies in demonstrating that “profit-sharing” really operates in China. In Chapter 5, “Profit-Sharing, Chinese-Style,” I combine fieldwork with an original dataset to show that Chinese local bureaucrats indeed receive more compensation from promoting business growth than from harassing businesses for fees and fines.

For some readers, any mention of evidence may seem “boring,” but it is essential for arriving at a solid understanding of Chinese political economy. Otherwise in this day and age, we can easily get lost in unnecessary debates based on subjective opinions or assertions rather than facts.

Your book compares China’s corruption with the kind America saw during its “Gilded Age,” in the late 19th to early 20th centuries. China’s leaders are widely known to be sensitive to certain historical comparisons, most notably with regard to the Soviet Union. Do you think Beijing is gleaning any lessons from the U.S. historical struggle with corruption?

That’s a very interesting question. No, I don’t think so – but they should.
Not only in Beijing, but everywhere else, there is a tendency to see China and America as polar opposites, especially in today’s “New Cold War” climate. Yet in fact, there are many parallels between post-1978 China and the late-19th century United States. Both Gilded Ages saw crony capitalism but also extraordinary growth and transformation. Millions of ordinary people moved from fields to factories, and a nouveau riche emerged, producing glaring inequality. In both, the dominant type of corruption was access money, whose risks and distorting effects were significant, yet fueled heady growth.

But to say that they are similar is not to say that they are identical. Obviously, the two nations' political systems are opposites: China is an autocracy whereas America is a democracy. For China, the American Progressive Era provides lessons on bottom-up methods of anti-corruption, such as investigative journalism and transparency policies, which can be partially carried out even in a single-party dictatorship. Indeed, prior to Xi, such methods were making progress in China. But Xi has curtailed them, preferring instead to deploy the Party’s disciplinary hammer in a top-down fashion.

After the COVID-19 pandemic, we can expect Xi’s regime to double down on a statist and top-down style of governance. On March 1, central regulators imposed stringent new rules on an already controlled cyberspace. Coupled with a drastic economic slowdown, the previously fertile grounds for access money, concentrated in land, real estate, mining, and infrastructure construction, will likely shrink. But so long as Xi maintains a state-dominant economy, where officials wield significant allocative and regulatory power, corruption could persist and migrate to new sectors such as technology, as I discussed at the end of China's Gilded Age.

The Author

Shannon Tiezzi is Editor-in-Chief of The Diplomat.