Yuen Yuen Ang on the Evolution of Corruption in China

Why has China’s economy boomed despite massive corruption? In her new book, Ang explains the ‘steroids of capitalism.’

BY DAVID BARBOZA — MAY 31, 2020

Yuen Yuen Ang, an associate professor of political science at the University of Michigan, has been featured in The Diplomat, and written for Foreign Affairs, The Wall Street Journal and Project Syndicate. She was an Andrew Carnegie Fellow, and her book, How China Escaped the Poverty Trap, has won awards for its “game changing” research into the country’s development. Her latest book, China’s Gilded Age: The Paradox of Economic Boom & Vast Corruption (Cambridge University Press) (https://www.cambridge.org/core/books/chinas-gilded-age/389BE063CCB6E75DDA144C36DABACD7A), explores the way in which corruption has infected, and yet fueled, China’s growth. What follows is a lightly edited Q&A.
Q. Professor Ang, the topic of your latest book, *China's Gilded Age*, is corruption. Why did you decide to tackle this topic?

A: The question of why China’s economy has boomed despite massive corruption is one of the most enduring puzzles for anyone studying China. Many people are perplexed. We know that corruption is terrible and should impede growth. We also know that the most corrupt countries in the world tend to be the poorest countries. And then there’s China. Many books and articles have taken up the subject, but I
wasn’t satisfied with their explanations. A large volume of literature tells you how corrupt China is. I found myself thinking, “There’s a lot of corruption. But why is this economy still growing so fast?”

**What did people get wrong?**

What they misunderstood was the nature of corruption, and the link between corruption and capitalism. To understand this we must begin by unbundling corruption [into its different types]. To explain China’s puzzle, we also need to compare it with other countries [and situations]. We find similar puzzles in East Asia and in America’s Gilded Age. Also, if we accept the conventional wisdom that all corruption is bad for growth, we will hit a dead end, because, to begin with, that assumption is flawed. We need to understand that although corruption always produces harmful effects, not all corruption impedes growth.

**BIO AT A GLANCE**

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<td>CURRENT JOB</td>
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You said there were different types of corruption. What do you mean?

I lay out four different types of corruption, and I collected a variety of new datasets so that we can go beyond anecdotes and subjective impressions, which can be very misleading. This data allows us to compare China’s structure of corruption with other countries and trace its evolution over time.

The type of corruption I highlight is “access money,” which dominates China. Access money means elite exchanges of power and wealth — the exchange of power and profit at a high level [with government
officials]. This should be distinguished from embezzlement, petty bribery, and plain old extortion and thuggery. Access money can actually stimulate investment and growth, even though it also produces perverse consequences for the economy and the political system — problems that are not reflected in annual GDP numbers.

**Explain that last part again. So it actually spurs growth?**

Let me give you an example. If you look at the crony ties between Ji Jianye [the fallen Chinese government official who once served as the Mayor of Nanjing] and the businessmen who paid him bribes, that activity doesn’t damage growth prospects. It actually encourages [both the mayor and businesspeople] to do more business: accelerate urbanization, promote mega industrial zones and tourism, build more condominiums, more infrastructure, and so on. All of that stimulates economic activity, translating into GDP.

**So, the Chinese officials are eager to generate economic growth as a means to develop their region and get promoted, but they can also financially benefit by taking some sort of payoff. We see this many places, right? But in China they have strong incentives to engage in economic development, not simply pocket bribes. Is that right?**

Yes. Here’s the way I like to explain it. Access money is the steroids of capitalism. It stimulates business activity. It rewards both politicians and businesses. Politicians are motivated to stimulate growth, while businesses invest and build more. But like steroids, it produces perverse consequences; for example, rising inequality and over-investment in speculative sectors such as land and real estate. These sectors easily allow government officials to convert their power into money. Over time, there are also incentives for businesses in China to move away from manufacturing into speculative activities. In Chinese the term for this is *tuoshixiangxu* 脱实向虚. Premier Li Keqiang and the NDRC [National Development and Reform Commission] acknowledged that this is a persistent and worrisome trend.
Many people have wondered whether the idea of corruption in China is shaped or influenced by aspects of Chinese culture. China has a strong gift giving tradition, for example, and that might make it more difficult to build a business culture or a legal system that restricts these cultural tendencies. In other words, some of what we in the U.S. define as a corrupt activity might be dealt with differently in China. Is this true?

It’s not that the Chinese people in general accept bribery; they know it’s wrong, and [citizens] are angry about it. But if there is a cultural difference, it may be a willingness in Chinese society to see corruption as indispensable to the operation of a capitalist economy. There is a
heightened sense of dilemma. On the one hand, bribery is bad and we should get rid of it. On the other hand, it rewards politicians and capitalists for jointly embracing capitalism.

Is that different from what you'd find in the U.S., for example?

Yes. The conversations are very different here because in the U.S. the nature of corruption is institutionalized and legalized. We rarely even use the word “corruption” [to describe some of the activities meant to help firms gain an advantage]. Maybe we use the word “influence.” People can lobby and influence in legal ways.

But in China, the state has extraordinary control over the people and businesses. How does that shape the corruption story?

China is a much more bureaucratic and regulated economy than the U.S., and there are two factors behind that. First, there’s a macro factor: China is a state-dominated economy. There’s just one party in power, and it has to transition from a planned to a market economy. So, the government plans extensively and carries out industrial policies. Just by the nature of this state-dominant economy, commercial activities will be more regulated. Then there’s a micro factor, which is the incentives that individual bureaucrats have to create regulations. The more regulations and power bureaucrats create, the more likely business people will pay [bribe them] to buy their regulatory influence. So, it’s a combination of the two.

But there’s a third point I’d like to add, as you’re talking about permits. Although China is a bureaucratic and regulated economy, this is, at the same time, mediated by another key political feature: local leaders have strong personal stakes in promoting economic growth. Thus, you often find conflicting situations where local agencies want to impose regulations, but local leaders stamp them out, because leaders do not want bureaucratic harassment or petty bribery to impede their development ambitions. That makes China very different from say India, which also has an excessively regulated economy but with abundant petty bribery.
In China, then, does it make sense to consider a bribe simply as a hidden tax? Something that companies agree to pay in order to improve their position?

Many political economists assume corruption is a tax. And I disagree with that because they are focused on petty bribery or bribes paid to overcome the regulatory barriers that you just described, which is to say: “I would not need to pay this bribe if you didn’t set up this unnecessary regulatory barrier! So it is a tax, and having to pay these bribes and fees and fines obstructs my business.” But when you look at access money corruption, like the company shares that Ji Jianye’s cronies gave him in exchange for years of monopoly control over procurement contracts, those payments are an investment. It’s like, “I’m paying you a certain amount of money and in exchange I’m getting much more.” That’s why I make a distinction between speed money, which is a tax on all businesses, and access money, which is an investment that gives some businesses great deals and thus stimulates economic activities.

Has the nature of the system in China — how bribes or payoffs are delivered — changed much?

I’m glad you asked because this is core to the argument. In one chapter, I look at the evolution of corruption patterns since the 1980s. Using data on corruption investigations, I show a stark reversal of trends in
bribery versus embezzlement. In the 1990s, embezzlement, misuse of public funds, and low-level bureaucratic extortion were all rampant in China, while bribery was much less prevalent. By 2016, the patterns were completely flipped. Bribery, especially on a grand scale and involving high-level officials, has exploded, while corruption with theft and extortion plummeted. If you live in China, you would sense that daily public administration is quite efficient, yet grand corruption scandals fill the press.

In addition, the words that Chinese people use to describe bribery have changed over time, which indicates that corruption strategies were evolving. Entering into the 2000s, new phrases were coined. One of them is “naked official” (luoguan 裸官), which refers to officials who have amassed immense wealth overseas while appearing poor at home. Another is “rent-seeking” (xunzu 寻租), which is new to the Chinese lexicon and imported from the western capitalist world. Under communism, people did not use these words. Another popular term is “elegant bribery” (yabui 雅贿), that is, corruption evolved to the point of giving art in lieu of cash. Presently, access money has probably advanced to even more sophisticated forms.

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So you’ve described a situation where the government is fairly efficient or business minded, and yet corrupt. And it drives growth? It’s the win-win situation that I heard almost every day I was in China!

But bear in mind that not everyone wins! Yes, corrupt officials and their cronies win, and overall, the economy grows feverishly, but as I stressed, there are perverse consequences. For example, access money sends real estate investment into overdrive. Mansions pop up all over the country yet affordable housing is seriously lacking for ordinary
Chinese people. This is a big social problem, but it does not get reflected in growth statistics. GDP is simply a crude measure of economic activities; it says nothing about the quality of development.

In other words, I’d put it this way: China’s political economy is paradoxical. And if we want to understand it, we must accept these paradoxes rather than put China into one or another binary category, as either corrupt or meritocratic. Some analysts argue, “This is a Confucian style meritocracy where officials are promoted according to competence and virtue.” But we know that’s not true. The other side argues, “China is all cronyism and it’s going to collapse soon.” This also isn’t true because corrupt Chinese officials can be simultaneously competent. Some of the most famous examples include Bo Xilai, the former Chongqing party secretary who fell dramatically in 2012, and Ji Jianye, former mayor of Nanjing.
My argument goes beyond saying that corruption and meritocracy in China coexist — rather, they feed off each other. To be a competent leader, can you really do it without any corruption? To be a corrupt leader who collects lots of bribes, can you do it without being competent? That is the distinguishing feature of China’s political economy. The political system is designed to be paradoxical. And so is the economy: rapid growth has lifted 700 million people out of poverty, but it has also produced a grossly unequal society.

**And where is this political and economic system headed?**

Since the 1990s, we see a clear pattern of China evolving toward a more sophisticated capitalist economy, where corruption evolves from thuggery, lawlessness and embezzlement to ever more access money. It is clearly on this evolutionary path.

**So, access just becomes more and more important? Does that mean it’s closer to the U.S. system?**

That’s why the book is called *China’s Gilded Age.* [https://www.cambridge.org/core/books/chinas-gilded-age/389BE063CCB6E75DDA144C36DABACD7A](https://www.cambridge.org/core/books/chinas-gilded-age/389BE063CCB6E75DDA144C36DABACD7A) We can take lessons from America’s Gilded Age. But I don’t see a future where China’s political economy becomes just like the U.S. There are certain enduring differences between the two countries. The biggest one is that China’s political system is highly personalist. It’s centered on individual leaders. Xi Jinping is the supreme leader. By comparison, the U.S. system is institutional; institutions are more dominant than individuals, though it’s difficult to say this in the Trump era [laughs]. But generally, U.S. leaders are constrained by checks and balances, whereas in China, power is concentrated in the hands of particular officials. For this reason, corruption in China will remain personalist even though it is becoming more sophisticated in the way it is carried out.

**What do you make of the sweeping anti-corruption campaign that has been carried out under Xi Jinping? So many people ask: is this a real anti-corruption campaign aimed at rooting out corruption, or is**
it an effort to purge opponents of the country’s top leaders? Or is it both?

Both. The campaign is not just a purge of Xi Jinping’s enemies. You have clients of the top leaders who fell even though their patrons are fine. And you also have clients who are fine even though their patrons fell. So it’s more than just a purge even though I get that this is a popular argument.

So, Xi’s campaign is a real effort to reduce corruption, but also perhaps a way to seize power and fight off competitors?

Exactly. It’s a genuine effort at tackling the corruption problem. The reason why Xi has to take this so seriously is partly because he came to office during a corruption scandal that involved Bo Xilai, which exposed the full gravity of access money and cronyism. This type of corruption worried him greatly, not mainly because it impedes growth, but because it feeds powerful [political] factions. And that undermines party integrity at the highest level.

Access money also threatens the legitimacy of the Party. When ordinary citizens perceive that corrupt officials and connected capitalists have rigged the system and benefited disproportionately from capitalist growth, this leads to popular anger over unfairness and inequality, not unlike in this country. That’s why anticorruption and poverty alleviation are two of Xi’s signature domestic policies. They go together logically.
David Barboza is the co-founder and a staff writer at *The Wire*. Previously, he was a longtime business reporter and foreign correspondent at *The New York Times*. [@DavidBarboza2](https://twitter.com/davidbarboza2?lang=en)