

The tide of corruption threatening China's prosperity



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The sudden sacking of Chen Liangyu, the Communist party boss of Shanghai and a member of the powerful politburo, for alleged involvement in a pensions scandal has exposed the twin fault-lines in China's political economy: fragile unity among the ruling elites and pervasive official corruption.

Much of Mr Chen's case remains murky. The evidence provided by the Chinese government for his dismissal is so sketchy that cynics might treat this case as just another example of unremitting rivalry within the Chinese leadership; especially because the political demise of Mr Chen, rumoured to have fallen foul of his senior colleagues in Beijing, has long been expected.

While Mr Chen's alleged misdeeds provide juicy material on intrigues in Beijing, official corruption is a serious matter. For the Chinese Communist party, it poses the most lethal threat to its survival. By all accounts, Beijing is losing the battle against graft. Despite introducing hundreds of rules banning officials from engaging in shady activities and occasionally executing the worst offenders, the Chinese government has barely made a dent in curbing the rapacious appetite of many of its agents. Hardly a day goes by without a shocking scandal coming to light in the media. On the day of Mr Chen's downfall, China's auditor-in-chief disclosed that an unnamed company defrauded \$140m from Chinese banks and spent nearly \$40m on bribes.

According to official figures, corruption is getting more costly and increasingly infecting the upper echelons of the government. "Major" corruption cases, measured in terms of the money involved, accounted for 23 per cent of all corruption cases prosecuted in 1990, but rose to 43 per cent in 2002. Officials with the rank of county magistrate and above were prosecuted in 6.1 per cent of the corruption cases in 2002 – compared with only 1.7 per cent in 1990.

Casual observers might be impressed with China's harsh penalties against corruption. But the reality is different. Of the 170,000 Communist party members disciplined for wrongdoing in 2004, barely 3 per cent were prosecuted. Of the corrupt officials convicted in 2003-2005, 52 per cent received suspended sentences and served no jail time. Some even continued to draw pay. Lax enforcement is no deterrent.

Rampant corruption threatens China's economic performance. It is pervasive in some of China's most vital economic sectors, such as banking, financial services, mining, energy, real estate and infrastructure. It distorts market forces and allows the well-connected to line their pockets at the expense of the public. Corruption results in huge economic losses due to fraud, theft and waste. Moreover, corruption corrodes critical public institutions, such as the courts, law enforcement and public pension administrations, undermining property rights, public confidence and social stability. As a result, corruption has dramatically increased China's systemic risks. In addition to dangers to the financial sector, corruption is responsible for numerous environmental, public health and public safety disasters. Widespread abuse of power by local officials has been a big source of tension between the Chinese state and its people, as shown by rising incidents of anti-government riots and protests.

Corruption in China is now assuming an insidious form: collusion among officials. Data show that collusive corruption accounts for 30 to 60 per cent of all exposed cases. The worst instances often implicate nearly all senior local officials. For example, in Heilongjiang, a scandal in 2004 brought down several hundred officials, including a former governor, several of his deputies and nearly all the prefect party bosses in the province.

Uncontrolled, corruption will inevitably sap China's economic dynamism. No country can simultaneously sustain high growth and massive corruption for long. Besides delegitimising the party, corruption endangers the delicate cohesion among its elites. Since most officials have family members or relatives engaged in businesses operating in an environment with blurred boundaries between the private and the public, they are all at risk of becoming targets of politically motivated anti-graft campaigns.

Shanghai's political earthquake should give Beijing a fresh opportunity – not to settle scores against Mr Chen, but to resuscitate its fight against corruption. But this time, only a strategy that empowers the media and civic groups to keep government officials honest has any chance of success.

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