# Chapter 4

# Efforts to Combat Corruption at the Implementation Level

## 4.1 Introduction

The aim of this chapter is to discuss the limitations that exist in efforts to combat corruption at the implementation level. Officials who do not adhere strictly to either the law or central policies are in fact corrupt or simply try to cope in a political reality. As the IMF-study by Mauro states, there is a connection between bureaucratic inefficiency and high levels of corruption, which also affects growth and investment rates. 'In fact, when individuals offer speed money to officials (or officials ask for speed money), they contribute to establishing a custom, so that the granting of, say, a license will be artificially delayed until a bribe is received' (Mauro, 1995). Furthermore, Mauro finds that it is wrong to equate corruption with non-growth or non-investments, althoguh corruption definitely raises the price of a service or goods, and definitely claims a share of all investments, funds, and resources. Therefore, it is possible to conclude that even if corruption may smoothen the way when dealing with officials, it also makes it more costly (Mauro, 1995).

In a political bargaining relationship, the actions of the local and central level officials are dependent on a number of considerations. In order to achieve social stability in poverty stricken and ethnically diverse areas, the government in fact tolerates a situation whereby allocated funds are used according to local and not central interests (Guo,1996). Firstly, this study will presents some cases that show how the state deals with corruption at the implementation level, in order to give an example how of the conditions on execution of the law

must adjust in corruption cases. It will then discuss the relationship between corruption versus political bargaining.

4.2 Morality versus legality

In the 1990 Yearbook of the Supreme People's Procuracy (*Zui gao renmin jian cha yuan*), a selection of 'typical cases' is presented. Here, the study will make a brief comparison between two cases, the cases against Zhang Guosong and Liu Yushan. Zhang received a death sentence for accepting bribes of 120,000 Yuan. Liu Yushan was sentenced to four years of imprisonment with a two-year probation for forging receipts and cashing in more than 80,000 Yuan. What separates these two cases is in that one received the capital punishment, and the other, a relatively mild term in prison. The crime of accepting and demanding bribes is more severe than stealing and forging receipts to cash in money, but the sentence of the two crimes does not show much difference.

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| Zhang was a bureau official in the Office for handling contacts with overseas Chinese in the Hanyang District in Wuhan city. He was responsible for sending educated youth into the countryside for work. To not perform this service he demanded bribes, and on a few occasions he demanded bribes from persons who were not even supposed to move to the countryside in the first place. Liu Yushan was deputy head of the Office for Machinery and Building Construction in the Anhui Provincial Government. In the name of planning and executing the project in the 12 sub-provincial offices and 57 subordinate state owned enterprises, he gave gifts and presents to 'grease' higher level officials. To do this, he had stolen sales receipts from the Beijing Friendship Hotel and a department store in Hefei, provincial capital of Anhui. He used these receipts to forge purchases of a large number of products, including alcohol and cigarettes. He then went to the sub-provincial offices and enterprises to get these receipts reimbursed, and in total he received more than 80,000 Yuan to spend on presents and gifts, all to benefit his own career (*Zui gao renmin*, 1990) |

In the 1990 Yearbook of the Supreme People's Procuracy and in the CDIC regulations of 1989, and paragraphs 63, 59, and 60 of the Criminal Law states that in order to give criminals a chance to repent for their crimes, the criminal must report his crimes voluntarily, return the

illegally appropriated money or goods, and confess and regret his crimes. In this way, the criminal can receive a lighter sentence. The moral code is that: 'Treat confessions with leniency, resistance with severity' (*Jianguo yilai* 1990).

Liu Yushan was tried in late August 1989. His crimes were very gross and the circumstances grave, but since he showed remorse, openly confessed some of his crimes, retold the story of the crimes, and actively helped to return part of the money, he was rewarded a lighter sentence (*Zui gao renmin*, 1990). He received four years imprisonment with a two-year probation is a very light sentence since the circumstances of his crimes easily qualified him for life imprisonment or even death penalty. For Zhang Guosong, as no such leniency was rewarded, he received the death penalty in spite of confessions and the return of part of the money. Because his crimes were very gross and the circumstances were very grave, that qualified him for life imprisonment or even death penalty. Even though Zhang had confessed and returned part of the money, the court remained firm and decided that the confession only came after the investigative authorities detained him. Only then did he return part of the money. For this reason, he was sentenced to death (*Zui gao renmin*, 1990).

The case tells us that the use of temporary amnesties for crime preventive causes is not unusual in world history, but when this method is used even for serious crimes deserving of the death sentence, then this shows a high level of arbitrariness in the execution of the law. Secondly, the moral of this is that confessions without resistance and a good attitude receives better treatment, which puts great pressure on the accused to confess. Thirdly, and most importantly, it shows that in China the moral judgement has some precedence over the strict

enforcement of the law. For efforts to combat corruption, party policy and CDIC notices, are more important than the law.

### 4.3 Political bargaining and corruption on the local level

As China is a highly centralized country, there are a plenty of institutions and levels of government between the central planing authority and the individual citizen. In the developing coastal regions of China, the provincial and state governments have to depend on the counties and economic zones to hand over funds received through taxation and fee-taking. The economic boom in China has created a number of private enterprises and individuals independent of the state. But in most of the rural areas at inland China, they are still highly dependent on government subsidies and allocations. The economic reforms have stagnated in many of these places because from the central leader to the peasants in the poor areas, a sizeable chunk of the allocated money will disappear like the IOU-crisis in 1992. The larger part of the money eventually reaches the county and village, but is often used for other purposes other than poverty relief by the local government. which county can get the most state funds and resources hinges on a number of factors: such as poverty-status, ethnicity, location and also capabilities of the county officials to use their bargaining cards well.

The questions that arise are: such officials why have become so 'greedy and self-interested and as power-maximizers'? And what made this change appear on such a grand scale after the economic reforms were initiated?

The 1992 IOU Crisis

Before 1992, it had been standard corrupt practice by many agencies and institutions of local, provincial, and central government involved in the state agricultural procurement network throughout China to divert procurement funds and use "white slips" (*baitiaozi*) in lieu of cash payment for commodities purchased by the state (Wedeman, 1997). However, the aftermath of Deng Xiaoping's Southern Tour in 1992, in which he encouraged increased investment in the coastal regions, state-owned banks and local governments in rural provinces issued unauthorized loans, taking advantage of the soaring interest rates, using funds diverted from agricultural procurement funds (Wedeman,1997). At the same time, banks in the coastal areas made speculative investments out of funds embezzled from postal remittance accounts used by migrant workers in the cities to send money to their families in the countryside. In mid-1992, farmers in rural areas in China were handed 44 billion Yuan in *baitiaozi* while families were issued "green slips" in lieu of cash by post offices and banks connected with the postal remittance system. To further compound the anger of the citizens, farmers were taken advantage of by traders who were willing to purchase the *baitiaozi* for cash, but for low discounts (Wedeman,1997). The ensuing protests by angry farmers and migrant worker families led to the Beijing government to intervene and to the sacking of People's Bank of China President Li Guoxian in 1993 (Wedeman, 1997).
Previously, the central administration had decentralized the state commodity procurement system, devoluting significant authority to local and provincial governments. The result was not improved efficiency, but increased corruption as local officials working in collusion with state banks took advantage of the disparity between market and state prices to make huge profits off illegal loans by siphoning off procurement funds. It was reported that two third of the total funds allocated by the central government were embezzled (Wedeman, 1997). The crisis was demonstrative of the dangers of decentralization without effective regulation, and maintaining the two-tier pricing system, and the lack of sufficient regulation by the central government by the local banks and governments themselves.

Many government institutions and agencies were thus involved in diverting money from poor peasants and the inland to the much more financially promising and profitable coastal areas. Everyone, except millions of poor farmers could gain from this behaviour, which shows that the control system could not handle such large scale embezzlement. This example of a large-scale corruption scandal can shed some light, even on what sometimes occurs between policy-making at the central level and at the local level. The most interesting fact here is the number of institutions involved in dividing up the share, and how government

designated poverty relief and aid funds can be diverted by those institutions. Obviously, these middlemen do this to reinvest in more profitable projects, or use it to build houses, buy imported luxury cars, or spend it on lavish banquets, travels and gifts.

The study strive to understand what makes it possible for local officials to manipulate funds and resources for investments, housing construction, luxury cars, and wining and dining instead of implementing government policies. To answer this question, the study looks further into the behavior of officials in the local community. Guangxi province is a designated ethnic minority province which it receives preferential treatment from the central government. The reasons for this are threefold:

1. T o help the designated ethnic minority areas in the name of national unity;
2. To help the designated poverty-stricken areas to improve economically in the long-term perspective;
3. To guarantee national stability.

Yu Ling County of the province qualifies as 'financial deficit' area, which grants them a fixed government subsidy and enjoys much more political and economic autonomy. The county has been granted preferential government loans, and receives more state subsidies to dispose of more or less as the county officials' do themselves see fit. A county official is cited as saying that no matter how big the deficit, they can always rely on the higher authorities to take care of the problem (Guo, 1996).

There are two factors for the increased local autonomy:

Firstly, the decentralization of government authority has made local officials much more independent to manage and distribute allocated funds and resources. Even though the central and provincial governments have the power over the distribution of funds and subsidies and policy-making authority, local governments to a certain degree have bargaining powers that balance central and provincial power. In other more prosperous areas, the growing local economies have more or less reversed the dependence between central and local governments, since the former depends on the local governments to provide tax revenue.

Secondly, the ethnic and social conditions of poor areas make it a possible trouble spot. To minimize the risks for ethnic or social unrest the central government generally allows these areas run their own businesses and have their demands met by the state. As mentioned earlier, the question of social stability has precedence over any other political matter in today's China. The central government is willing to use many methods in its efforts to maintain social stability in remote areas (Guo, 1996).

Effort to combat corruption at the implementation level is also limited by the growing difference between rich and poor areas in China, which creates both economic and social tension in society. The central government needs the compliance and loyalty of Party and government officials in the hinterland. The central government relies on them to uphold order and control over the people. Therefore, the more bargaining power a local government possesses over the centre, the more economic and political autonomy it has over the management of the locality.

The resistance and obstructionism from Party and government institutions as well as from individual officials, is another important factor which to limit the efficacy of anti-corruption work at the implementation level. To investigate local Party and government officials, the local DIC or Bureau of Supervision needs the permission of the local Party committee and government and the next higher level DIC (*Fan fubai* 1994). To analyze what makes officials abuse their positions Lane (1996) suggests an institutional model, where officials are primarily corrupt because the setting they operate in is corrupt. Every institution has its own rules and limits set by the higher authorities, with ample room to manoeuvre in implementing central policies. The anti-corruption authorities face an arduous task in their efforts to penetrate the 'fire-walls' of an institution, built on collective loyalty, fear, and ingrained norms. Breaking through the 'fire-walls' requires firm action from higher authorities but even they must tread very carefully to not risk alienating the whole community.

The decentralization of the Chinese political structure has given institutions and governments at the local level more power to implement central Party and government policies, at the cost of the intermediate levels. As described by Lane, the hierarchical institution has a powerful leader who sets the limit of operation for the other officials (Lane, 1996). The fragmentized institution lacks this kind of coherence, but some or all officials in the institution demand an extra fee for performing services. To satisfy both the public and to maintain stability in the local political structure,it's highly probable that instead of removing the entire Party committee, a scapegoat is singled out to take most of the blame while the majority of the other leaders are transferred to other positions in the political structure.

## 4.4 Scapegoat in Anti-corruption

The use of a single scapegoat in anti-corruption work at the local level is well exemplified by the "Yuan Hua" case in Xiamen, Fu jian province (Peoples' Daily, 2000). This case also involved many local and provincial officials including the president of a district court, a Party committee secretary, a local bank branch, port authorities, the head of the customs and even other high rank officials in the CCP and military. Lai Chanxing was the head of Yuan Hua Company in Xiamen, who was charged with giving out bribes of more than millions of Yuan, and the total value of the economic crimes was said to be more than 60 trillion Yuan. According to the report, he was involved in smuggling and had bribed the Party committee secretary and others grant him to access large number of imported cars, oil and others commodities without paying the tax.

A large number of institutions and officials were involved in this affair, each demanding a cut from Lai for his shady dealings. Since the People's Daily reported the case on its first page, the 'Yuan Hua' case was clearly used for propaganda and educational purposes. Lai and some other local officials were made the scapegoats. Therefore it is no surprise of that as this case involved large sums of money, the trial was not open to the public, and that most of the officials involved were accused of moral degeneration and deviation from Party ideals rather than treated as criminals.

The bribes that Lai had to pay were probably not the price for the services he demanded according to local institutional norms, and as such the Lai case was probably only one of

many similar cases, and the extra fees were part of the institutional culture. As long as officials are supposed to be the moral and ethical vanguard of the people without being rewarded economically. The chances of local government institutions, especially in economic developing areas, continuing to charge extra fees and taxes for personal and institutional use are almost certain (Myers, 1987).

This case also demonstrates how the *guanxi* network works. Lai probably obtained the services of the Party and government leaders in Xiamen with money, but a combination of money and connections worked to perform the transaction. If a person has good connections and many friends who are part of a powerful *guanxi* network, made up of influential officials at various levels in the Party and government organizations, then he has both access to scarce goods and services, a good backing in the Party or government that to some extent protects him from investigation. If investigated, the treatment can be more lenient for early confessions and return of goods and money. A good *guanxi* network and a good position in the Party or government probably makes it easier to receive a lighter sentence. In the case against Lai Chanxing, it is clear that the politically 'worthless' businessman fared the worst, while most of the involved officials could use, all their extensive networks for some degree of protection.

As mentioned earlier, the central leadership place social stability above anti-corruption work, moral judgement above legality, and the image of the Party above thorough investigations and exposure of derelict party and government officials. When efforts to combat corruption reach the implementation level, the local Party or government officials have to try to

implement orders from both the central government and their superiors in the provinces and counties. The decentralization of executive power to the local governments has achieved a higher degree of flexibility in implementing central policies, but to some extent has created more opportunities for corruption and bureaucratic inefficiency (Mcrae, 1996).