



Universiteit
Leiden
The Netherlands

The emergence of new elites through corruption in post-Mao China
Vuylsteke, Alpha

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Introduction

China has experienced significant economic reform from the 1970s onwards. This resulted in growth levels averaging around 9.05%. During this period, its economy transitioned from a plan economy towards a system in which the market played an important role. It was a phased reform and had a profound influence on Chinese people and society. In the years before the Opening Up and Reform period, Chinese leaders sought to make the country self-sufficient. In the cities, life centred around production forces called danwei (单位). In rural China, this happened through cooperatives called nonghui (农会). Prices weren't based on the logic of the market, but determined by the government. From the 1980s onwards, market elements have gradually been introduced.

Contemporary China has changed significantly since it's founding in 1949. This process has been the subject of a lot of research. In this paper, I am going to focus on the question how elites emerged due to corruption in post-Mao China. My hypothesis is that market reforms introduced to promote the private sector and to decentralise economic governance increased opportunities of corruption. In the case of local officials this happened due to the development of local economies and the emergence of local interests. In the case of high ranking officials, I think China's governance structure of a one-party state has been conducive to corruption.

The first part of my thesis will discuss my analytical framework. In my study I will use the principal-agent approach and the political settlements framework. I will first discuss key aspects of both before diving deeper into works relevant to my proposed framework. In a third part I will discuss limitations of both approaches, how I plan to overcome them and the data I will use.

The second part of my thesis is a literature review. I will discuss previous literature on corruption in general and Chinese corruption in particular. My goal is to highlight key aspects and different definitions of corruption. I will also examine possible difficulties when researching this topic. Finally, I will also look deeper into the relationship between corruption and growth.

I will analyse the emergence of new elites through corruption in the third part of my paper. I broadly discern three groups: Elites through decentralisation, Elites through privatisation and Elites through administrative monopoly. I will apply the principal-agent approach on the economic and political reforms which took off during post-Mao. This will help me examine the drivers behind corruption by local officials and SOE managers. For my discussion on high level corruption, I will apply the political settlements framework on the governance structure of China. In this regard, it will be crucial to see how patronage networks have been able to sustain and enrich themselves.

I will conclude my thesis by reviewing Xi's campaign against corruption. I will look specifically at the effects of his efforts on the causes I discussed in the previous part. I will also discuss how the literature views his efforts.

2. Methodology

In this part of my thesis I will discuss the the scope and objectives of my research. I will also explain what theoretical framework I plan to use and the limitations of some of the concepts I propose to use. Hereafter I will also describe how I plan to operationalise my framework as well as expand on the data I will use.

2.1 Objectives of my research

The aim of my thesis is to examine factors that contributed to the emergence of new elites through corruption during post-Mao China. I will show how reforms in the economy affect the extent and form of corruption in a society.

With “new elites” I refer to individuals or groups who have profited from opportunities to engage in corrupt activity after China’s transition towards a market economy. They are not determined by an exact amount of extracted rent or received bribe, rather I try to show that as China's economy changed the same happened with corruption. My research will focus on corruption, economics and politics. Most important will be when all three intersect.

2.2 Theoretical framework

The first part of my theoretical framework is made up out of the principal-agent approach. It is used in economics and political science and meant to study situations in which someone

hires another party or agent to do their bidding. In the context of corruption however, it seeks to find what drive officials to engage in corrupt activity.

The second part of my theoretical framework are political settlements. It is utilised in political economics and examines the dissemination of power and influence among policy levels. It focuses on how elite behaviour is influenced by power structures and the kinds of relationships between elites. Also important is how these structures are maintained or changed over time.

In what follows I will first describe key components of the principal agent approach to corruption. Afterwards I will discuss two important authors that use this framework, Klitgaard (1988) and Rose-Ackerman (1978). These two authors are very important for corruption studies and have both used the principal-agent approach. Hereafter I will examine key aspects of the political settlements framework.

2.3 Key aspects of the principal–agent approach to corruption

This approach finds that an information monopoly and diverging interests cause corruption. At the heart of this approach are central principals and local agents. An important step in this regard is the delegation of power and how this affects the interests of policy levels other than the central.

The approach finds that corruption occurs when the benefit of a corrupt activity outweighs the risk of being punished. This means that the ways in which the power of officials are kept in check, greatly impacts the extent of corruption. This approach also proposes policy measures to address corruption. A first example is by diminishing discretionary power of the local agents and ensuring that principal's can hold them accountable. Tackling the information monopoly of local agents is also important.

2.3.1 Klitgaard

According to Klitgaard (1988) a first way in which an official is corrupted is through a monetary payment by a possible client. In this case the relationship between the central and local level changes, with the local agent essentially working for the client instead of the centre. He finds that local agents can also become corrupt through the emergence of local incentives. In this case, the local agent abuses his discretionary power granted by the central level for his

own benefit. As a result, a new set of relationships develop and the former agent takes on the role of principal. They in turn represent a particular set of interests, and hire their own agents to work for them.

In his research he also describes several structural causes to corruption. Klitgaard finds that three aspects of governmental institutions influence the extent of corruption in a country:

(1) the monopoly power of officials; (2) the degree of discretion that officials are permitted to exercise; and (3) the lack of accountability and transparency in an institution.

If we follow the conclusions of Klitgaard, decentralised rule provides ample room for corruption. In my thesis I will focus on the aspect of diverging incentives between local and central actors. It will become clear that through decentralisation, new kinds of corruption have emerged.

2.3.2 Rose-Ackerman

Rose-Ackerman emphasises the importance of governance structure. She discerns several groups in society: public officials, private actors and central authorities. Central to her theory is the need for the incentives of public officials to be in line with the public interest.

She finds that when public officials hold significant regulatory and discretionary power, corruption can occur. According to her work, a principal-agent problem occurs when the public's interests do not align with the agent's (the local official) interests.

Rose-Ackerman argues that in order to prevent such a problem, governance structures should focus on aligning central and local interests. The extent to which corrupt behaviour is persecuted by central authorities can be seen as a political driver against corruption. She also finds that the wages of public officials play an important role. The latter is an economic driver.

In my research I will look at how these economic and political drivers have impacted local corruption. To what extent risk local officials being caught and what about there wage?

2.4 Key aspects of the political settlements framework

This approach is developed by Mushtaq Khan (1999) as a means to solve issues with institution analysis. In particular, it seeks to examine why certain policies and organisations worked well in certain settings but weren't successful in others. Examples of this are attempts

to implement property rights and rule of law institutions. These were successful in advanced capitalist nations but a lot less effective in developing nations.

Central to the framework is the effect of power distribution on policy change and institutions. It seeks to describe a process in which policies and institutions determine the rules of resource allocation. This in turn can have very different effects on different kinds of organisations. Depending on their interests and capabilities, groups of policy makers either support, oppose, or sabotage particular institutions or policies. This framework thus finds that institutions and policies that are most likely to endure and develop are determined by the distribution of organisational power. Very important aspects of this framework are elite-bargaining, informal institutions and contacts.

This framework focuses on corruption which occurs in group context. I have chosen it because it enables me to look beyond individual acts of corruption and examine patronage networks as well. This is especially relevant in transition or emerging economies. Gray (2015) finds that in the case of developing countries, the distribution of political power is not in line with the formal structure of institutions. Rather, clientelist networks determine power distribution.

2.5 Operationalising the principal-agent approach and the political settlements framework

The overarching question of my thesis will be how new elites have emerged during China's transition towards a market economy. While using the principal agent approach, I will dive deeper into issues related to diverging interests and lacking regulatory frameworks. Concretely, I will examine how these diverging interests have emerged. This approach however fails to take into account how high-level policy makers in China have abused their power. Through the political settlements approach I will focus on how corrupt networks work and sustain themselves. In a final part I will discuss the effects of Xi Jinping's anti-corruption campaign which took off in 2012. Of interest in this last part will be the successfulness of addressing the causes of corruption I discuss in previous parts.

My aim is to describe how different kinds of elites have profited from China's transition to a market economy, this means that the kinds of corruption I will describe will depend on the elites I discuss. The way in which I discern different kinds of elites is therefore a lot more important.

The first group I will examine are local elites or "Elites through decentralisation". As a result of political and economic reform, they hold more discretionary power and local economic interest have emerged. These elites have been able to abuse their power and profit from China's transition.

The second group I discuss are SOE managers. They often work in concordance with local officials. These "Elites through privatisation" have abused their knowledge about the value of state-owned assets during the privatisation of large chunks of China's state owned sector.

The final group I will discuss are Elites through a administrative monopoly. Among them I count high ranking officials and their families. They profit from the governance structure of China. The undisputed leadership of the Chinese Communist Party enables them to exercise a lot of power. Through their high position, they have been able to enrich themselves through patronage networks.

By making this distinction I do not mean to say that there are no other forms of corruption occurring in China. This paper focuses on how elites have emerged after the introduction of market elements and new forms of corruption.

2.6 Limitations to principal-agent approach and political settlements framework

Although they are useful, both frameworks suffer from some blind spots.

By focusing on the relationship between central and local officials, the principal-agent approach tends to prioritise individual actions and incentives. However, in some regards, corruption occurs in group context. In this case, patronage or clientelist networks engage in corruption in a hierarchical manner. These corrupt groups consist of "patrons" that tend to be in high positions, with links going all the way down the hierarchy. I find that the political settlements theory is able to fill this gap as it focuses on bargaining power and the role of elite networks in policy change. This framework does in turn also suffer from some blind spots. By overly focusing on the effects of power distribution and corrupt networks, it disregards the agency of individual officials and their singular acts of official misconduct.

A final limitation of my approach could be that it does not devote a lot of space to specific cultural characteristics like *guanxi*. However, I have opted to leave this out. Often times, works that focus on *guanxi* or other aspects of Chinese culture try to legitimise a fundamental problem in China's governance structure. Cultural perceptions and their influence are also al

lot more difficult to measure. This is less the case for the principal-agent approach or political settlement framework.

2.7 Data sources

In this paper I will use previous research to show to what extent China has changed and how new elites have emerged due to corruption. This means that for my discussion on China's reforms, I will rely on secondary sources and apply my theoretical framework on findings from different works.

Yet, my analysis also includes case studies of specific examples of corruption. For this I will use primary sources. With the help of reports and articles on the website of the Supreme People's Procuratorate of the People's republic of China, I have sought to show how different elites have engaged in corrupt behaviour.

3. Literature review

In what follows I will give an overview of important concepts and works in the field of corruption studies and research into corruption in China. My aim is to review literature that explores the emergence of new elites in post-Mao China through corruption.

I will first define corruption and the types of actors involved. This is followed by a discussion of the emergence of new elites through corruption. Hereafter I will dive deeper into existing literature on corruption in China. This study seeks to contribute to a deeper understanding of the complex relationship between corruption and power in post-Mao China.

3.1 Defining corruption

Generally, corruption can be seen as the abuse of state power for private gain. However, this is for some researchers a bit too broad a term, mostly because it is hard to quantify. As my analysis is mostly focused on the emergence of elites, I will however use a broad definition as well because this fits my purpose better.

The main actors are easier to define. I find that corruption is closely related with the activities of the state in public life and especially with its monopoly on power. Actors therefore range from officials to private individuals, all trying to abuse the discretionary power related to a

certain government position. Some papers find evidence of corruption among private individuals, but I fail to see the distinction between other kinds of fraud.

3.1.1 Corruption and the emergence of new elites

Works which seek to examine the emergence of new elites stress that this process occurs at periods of transition. A common argument is that transitions are opportunities for corruption. In what follows I will first discuss works on elite formation in general before going deeper into specific countries and regions. I will discuss former communist countries and authoritarian regimes because they share either an experience of communism or far-going state control with China.

Von Soest (2013) has done a comparative study between six transition economies and how corruption has been affected. He finds that official misconduct in Argentina, Venezuela, Indonesia, the Philippines, Kenya, and Zambia is remarkably resilient. There is however a positive effect of democratic institutions on anti-corruption campaigns. He also find significant shifts in power distribution. Fan et al., (2009) also did a comparative study and find that the structure of government affects corruption in developing countries. At the same time, they also found that in more developed countries, large subnational bureaucracies increase corruption. This is not the case in the developing world.

Although they both have interesting insights, both studies seem to point to one thing: corruption needs to be examined in specific contexts. Although there are general trends, both studies emphasise difficulties in building an overarching argument.

I think that there are two kinds of countries especially relevant in my study of the emergence of elites: transition economies like the former soviet-bloc and former authoritarian regimes.

Although these countries are diverse in many aspects, they do all share a communist or authoritarian past.

In Eastern-Europe we can find a lot of examples of (former) transition economies. Shlapentokh et al., (1999) examine multiple countries in the region. According to their research, “new elites” were a combination of new business owners and former communist officials. They also argue that the extent of elite formation was affected by factors like legacy, liberalisation and globalisation. Reed (2022) looks more closely at Czechia and how

corruption has changed there. He finds that the fast and large scale privatisation process happened in concordance with corruption. At the same time, the interests of central powers and corrupt businessmen became increasingly intertwined.

There is also research that dives deeper into the effect of decentralisation and democratisation on corruption in former dictatorships. Schopf (2012) examines how corruption has changed during South-Korea's transition to a democracy. He finds that a new and riskier pattern of corruption has occurred, in which more actors are involved. Instead of only having to please central authorities, businesses now also have to keep opposition politicians in mind. In the context of Thailand, Shamsul (2010) finds new elites emerged due to the decentralisation of discretionary power.

Although corruption is impacted by local realities, I do feel that moments of transitions are opportunities for new elites to engage in corrupt activity. Walder (2003) shows how communist era elites have profited from Russia's transition towards another governance structure at the end of the previous decade. What's more, in a later part of my paper I will show how former SOE managers have exploited their position during China's marketisation. The extent, form and sustainability of this process is however determined by a number of factors like the local history, political reality, liberalisation...

3.2 Corruption in China

Corruption has been an issue which has attracted attention both abroad as well as in China. Researchers like Guo (2008) or Gong (1997) emphasise the role played by China's economic transition on the extent and form of corruption occurring in the country. These findings are in line with general thoughts on corruption elsewhere. Interestingly, China can be seen as an outlier when we look at the relationship between corruption and economic growth. The so-called "China paradox" relates to the fact that economic growth and high levels of corruption have occurred simultaneously during China's recent rise.

These facts make China a compelling case study. Not only has the country experienced significant political and economic reform, it has also grown very rapidly. This is why most researchers either try to find out how corruption changed during the decades of economic reform, or explain why China has been able to grow despite high levels of corruption.

I will first examine official and academic definitions of Chinese corruption. This will be followed by a discussion on factors which complicate research into corruption. Hereafter I will

examine how corruption during the Mao-period differs from official misconduct later on. Finally I will focus on the relationship between growth and Chinese corruption and the aspect of the “China-paradox”. Although most researchers acknowledge the negative effect of corruption on economic growth, there are some works that discuss the temporary positive side effects. In this literature review, I sought to show that as China changed so did corruption. The majority of the research points to the economic reforms and marketisation of China as big drivers of this change

3.2.1 Formal and academic definitions of corruption in China

The main law that regulated corruption prior to Xi Jinping’s Eight-point Regulation (2012) was the 1997 Chinese Criminal Law (CCL). Yu (2011) finds that this addition to the 1979 Criminal law is a big improvement when it comes to anti-corruption efforts. The 1979 law was not suited to tackle novel kinds of corruption which sprung up after the opening up and reform period. Yu contends that the 1979 law not only failed to regulate corruption, it also made prosecution more complex. The 1997 law defines various forms of corruption according to various actors, behaviours, and motives. Within this legal framework, economic corruption is just one category that falls under the formal legal definition. The CCL and China's Law Yearbook state that there are economic and non-economic forms of corruption. Economic corruption includes embezzlement, bribery, misappropriation, illegal gains, unauthorised dispersion of state properties, tax evasion and resistance, trademark counterfeiting, and illegal speculation and profiteering, abuse of power, neglect of duty, nepotistic malpractice and bigamy. Non-economic corruption in contrast includes illegitimate feasting, feudal rites (cadres holding extravagant, traditional weddings and funerals), illegal imprisonment and torture.

More recent efforts to combat corruption can be found in Xi Jinping’s Eight-point Regulation. He aims to outlaw all gift-giving; extravagant public spending; illegitimate feasting; and feudal rites. There is a clear focus on non-economic forms of corruption. One explanation for this turn is that these ultimately lead to patronage and factions that could pose a threat to his power base. Wedeman (2017), among others, suggests that Xi’s efforts are a combination of legitimate anti-corruption legislation and factional purging. The concrete effectiveness of his campaign will be discussed in the last part of my thesis.

In academia there are several definitions for Chinese corruption. These are often shaded by the intention or field of the researcher. Ko and Weng (2012) prefer a formal legal definition as it is operational and broad enough to include several different kinds of official misconduct. Rose-Ackerman (2014) in contrast, characterises corruption as the abuse of office for personal gain. According to Wedeman (2004), corruption is defined as "basically any type of 'inappropriate' conduct by either a state official or an individual from the Socialist Faction."

Gong (1994) and Kwong (2015) in contrast use very specific terms to discern different forms of corruption in their works. Some of these include nepotism, favouritism or shirking. The fact that there are many ways of defining corruption is a testament of the highly subjective character of corruption.

3.3 Difficulties in defining corruption

In what follows I will discuss how the Chinese context can make it difficult to try and define corruption. I broadly discern three reasons why: (1) cultural factors; (2) the political and institutional context and (3) regional and sectoral differences.

3.3.1 Cultural factors

Guanxi is a clear example of a cultural factor which makes research into corruption in China difficult. It is a sociological notion that refers to personal and economic partnerships in Chinese culture. It is a reciprocal relationship in which people maintain bonds by giving favours and displaying devotion to one another. This casual relationship can lead to transactional forms of corruption like gift giving or unequal treatment.

Whether Guanxi is in fact a form of corruption is however debated in academia. Guanxi has a different value for different researchers. Gold (1985) believes that Guanxi contributes to the widespread corruption that exists in Chinese society. In the case of Guanxi culture, we also see some researchers claiming it has spurred Chinese economic development. Tsang (1998) and Yeung and Tung (1996) see Guanxi as being useful. Davies et al. (1995) and Nee (1992) think that it reduces transactional costs and increase economic efficiency. Others still consider Guanxi to be multifaceted and to have both positive and negative effects.

Part of the reason behind different views on Guanxi can be attributed to the changed nature of the Chinese society. Luo (2008) looks at how Guanxi and corruption are intertwined in

China. He focuses on how these two factors influence the changing culture and business behaviour of China. There is a positive impact of Guanxi on familiar firms working in China. However the complex social scene and the commonness of Guanxi and corruption persist. He finds that Chinese business practices and cultures are shifting in two distinct directions: one positive, as evidenced by an increased awareness of competitive advantages and capability development, and one negative, as evidenced by the connection between Guanxi and corruption. While societal demoralisation propels the negative, market liberalisation and competition boost the positive. Guthrie (1998) however finds something different. He argues that views and perceptions of Guanxi are undergoing significant shifts in the urban industrial economy. He finds that Guanxi and Guanxi practice are not playing an increasing role in China's economic transition. According to his findings, this is especially the case in the urban-industrial economy.

3.3.2 Institutional factors

The political and institutional context also make it difficult to define and research corruption. The Chinese Communist Party (CCP) is at the heart of political life in the country and effectively enjoys a monopoly of power. Their dominion over politics and society is visible in the control over the the legal system and large parts of the media.

The lack of distinction between a judicial, administrative and legislative powers leads to low levels of transparency and accountability. This complicates research into the prosecution, especially when it involves high-ranking officials or powerful interest groups. Stromseth et al., (2017) argue that there is a close link between corruption and low levels of low transparency and accountability. They even find that the lack of transparency exacerbates corruption. In general, the lack of transparency and accountability means that quantitative research is difficult. Yuen Yuen Ang (2021) and Wedeman (2012) for example, both acknowledge that their research suffers from a data bias.

3.3.3 Regional and sectoral factors

Finally, regional and sectoral differences also complicate research into Chinese corruption. To understand how this works it's important to know that there is a lot of economic diversity in China. Local economies are sometimes very different and therefore offer a multitude of ways to engage in corrupt practices. Also important is that the Chinese governments' engagements

in the economy also differs. This means that government intervention is in some cases greater than in other cases. Research into corruption should take this distinction into account as well. One example is the work of Cole et al., (2009). They find that the decision of foreign companies to locate to a certain province or municipality is correlated with local corruption efforts. They also find a difference within sectors, with localisation decisions being more significant in the manufacturing sector.

In general, it seems that defining and combating corruption in China is a complicated and multifaceted problem. It requires knowledges on the broader cultural and societal norms as well as the legal and institutional reforms. While progress has been made as of late, addressing corruption will probably keep on being quite difficult for China in the years to come.

3.4 Corruption in China After 1949

According to Wedeman (2012) Corruption in pre-reform China was markedly different from the kinds of rent-seeking and elite enrichment rampant in later years. Ordinary citizens were able to denounce corrupt behaviour by state officials through open or covert denunciations, subjecting state agents to surveillance and policing. The Maoist era was marked by massive campaigns, many of which targeted corruption. Nevertheless, Pei (2006) finds that corruption was by no means eradicated after these campaigns. He writes that during the 1960s and 1970s, individuals sought to profit through Guanxi. They wanted to obtain scarce commodities or favours from officials and bureaucrats. Money wasn't as important at the time because it couldn't buy access or rationed goods on its own.

Researchers highlight the differences in corruption later on. China's second generation of leaders were aware of the dire state of their country and saw economic development and growth as imperative. A crucial aspect of their reform was the loosening of economic restrictions. The first phase took place in 1978 under Deng and is known as the "opening up and reform period". This time saw the transition from a plan-economy to a (more) market-oriented one. Market-oriented reforms have impacted official misconduct.

The introduction of market mechanism has had a big impact on China's recent economic success. Nevertheless, the absence of a well-established regulatory framework and weak law enforcement created opportunities for corrupt practices. Ting Gong (1997) sees a clear link between the new economic opportunities and novel types of corruption. His discussion shows

that, due to the lack of effective regulation of market exchanges and the rapid development of a market economy, corruption prospered. Ang (2021) and Wedeman (2012) both come to similar conclusions.

3.5 Chinese corruption and growth

Finally, I would also like to discuss the relationship between corruption and growth which is heavily debated in academia. In general I discern two different kinds of approaches in the literature: a Sand in the Wheels Approach and a Grease in the Wheels Approach. Both approaches see a strong link between economic growth and efficiency. In the case of the Sand in the Wheels Approach, corruption reduces bureaucratic efficiency and increases cost. The Grease the Wheels Approach in contrast emphasises that corruption can improve efficiency in some cases.

According to Grease the Wheels Approach, corruption has a positive marginal effect on growth in countries with weak political institutions or policies. Its effects is negative effect elsewhere (Meon and Sekkat, 2005; Meon and Weill (2008)). Work that uses the Sand in the Wheels Approach like Djankov et al. (2002) find something different. They researched the number of steps a small start-up company must take to become legal. In their sample of 85 countries, they found a strikingly strong correlation between the administrative hurdles companies had to overcome and (perceived) corruption levels.

The basic point of the Sand in the Wheels Approach is that corruption and inefficient laws are cut out of the same cloth. It finds that corrupt politicians set up and maintain corruption. However the Sand in the Wheels Approach is limited as well. It still fails to take into account that different kinds of corruption affect growth in a multitude of ways. I therefore feel corruption should not be seen as a homogenous concept. Research should take into account local realities and histories as they also affect the growth path of a country.

Previous research sees a complex relationship between corruption and growth in China. Wedeman (2012) finds that corruption in China is systemic and very much linked to the distinct form of China's political system that combines authoritarian decision making with decentralised economic policies. He also attributes the high levels of corruption to weak regulation and an absence of an independent judiciary. Yuen Yuen Ang (2021) also sees a link between China's governance structure and its corruption issues. She finds that the growth and corruption have been able to go hand in hand because of a profit-sharing model. Officials do not engage in corrupt activities that harms businesses or hamper growth, as this

would endanger the “duck laying golden eggs”. At the same time, she stresses that, although this model has been good for growth, it is best interpreted as steroids. Similar to the muscle enhancing drug, it is not sustainable. Finally, Wang and You (2012) do more specific research and examine the effect of corruption on firm growth in China. They find that corruption has a negative impact on firms. What’s more, private firms suffer more from corruption than SOE’s. This deviation could be linked to the political connectedness of SOE’s and the findings of Xu et al., (2017). They have found that in some cases corruption can function as protection money, protecting businesses from threats like strict regulation or competition.

These findings all imply that China has been able to grow despite corruption rather than because of it. The unsustainable characteristic of this relationship has moreover recently come to light in the excesses of the Chinese land and property development and the tumbling of Evergrande.

Although my study will be centred around the emergence of new elites during China’s post-Mao China, I do find it important to highlight the findings from previous literature. The local reality is important, not all kinds of corruption affect economic growth the same way and corrupt societies are often self-sustaining.

4. Analysis

According to earlier research there is a relationship between economic reforms and corruption. With China’s economy opening up, possibilities for rent seeking increased. In this part I will dive deeper into specific reforms and their effects on corruption. What aspects of the economy were loosened and how has this contributed to more and other forms of corruption? Fundamentally, I will try to examine the emergence of new elites. How did these “new elites” grab opportunities for rent seeking?

For this research I have chosen to focus on three distinct groups who have all profited from Chinese corruption. The first group are “Elites through decentralisation”. These are local officials and lower level cadres who have taken advantage from reforms in local economic governance and the devolution of power. The second group are “Elites through privatisation”. These are people who have benefited from the privatisation of large chunks of China’s state sector. The last group are “Elites through power monopoly”. This group includes high level cadres and government officials who abuse the dominance of the CCP in

Chinese society. I have chosen for these categories as these groups have engaged in corruption in different ways from each other. Highlighting how their status or job plays a role is also relevant in this research.

To research the emergence of a new class I will use secondary literature to describe economic reforms and their effect on corruption. I will also use case studies to give clear examples of how corruption works in practice. Finally, I will apply my theoretical frameworks to look at the causes of corruption in China.

Each time I will first describe how new policies gave rise to new opportunities for elite enrichment. Hereafter, I will show how individuals or groups have tried to take advantage of these new opportunities.

4.1 Elites through decentralisation

With this group I refer to local officials who abused their discretionary power following decentralisation. As the central government retreated from local economic life, lower level officials filled the void. With this new power also came new ways to be corrupt. Two factors contributed to this: (1) the dual identity of local officials as both regulator and political official and (2) the fiscal recentralisation which gave local authorities the opportunity to lease and develop land.

In the first part of my discussion I will give a broad description of the devolution of power. In a second part I focus political and economic incentives that cause local corruption. This will be followed by some case studies showing how local corruption occurs in practice. Finally, I will apply the principal-agent approach to this group as I feel it best fits its emergence.

4.1.1 Decentralisation of power

The decentralisation of power was the first step in China's transition to a more market-oriented society. By loosening its grip on economic decision-making, the central government sought to give local governments and businesses more autonomy. The logic was that they would be better suited to understand the local realities and solve local problems. Another factor was the objection of China's second leader, Deng Xiaoping (1904-1997), to the administrative structure typical of the Mao period. At the time, the party was excessively centralised and power rested with just one man.

With respects to the economy, the decentralisation efforts from the reform period have increased the interest of local officials in entrepreneurial development. It also reoriented the behaviour of local governance. In effect, the reform of power distribution has lead to localised economic interests and competition between municipalities.

The evolution of local-central relations can be divided in two distinct periods. The first phase happened during the end of the 1970s to 1993. At the time, each level of government was responsible for its own expenditures. This came to be known as the ‘fiscal contracting system’, or ‘eating in separate kitchens’ (*fenzao chifan*). It resulted in local governments being increasingly depended on independent sources of income without considering the national budget.

The second period took off with a decline in budgetary revenue of the central government and fears of losing control. This ultimately resulted in a tax reform in 1994. Instead of revenue sharing, the system would focus on tax-sharing (*fenshuizhi*). The new system brought fiscal management back to the central level, but left little room for local economy autonomy. Naughton (2018) finds the central government struck a deal with their local counter parts. Local officials were granted significantly more power to manage their local economies. In exchange they had to give up the revenues and authority that the centre reclaimed. This reform effectively decentralised the management and regulation of the local economies to the local government.

The effects of the fiscal reform are intricate and have profoundly affected the behaviour of local officials. The tax reform increased the amount of revenue that the central government demanded of their local counterparts. Local governments were also required to bear a greater financial burden for public services like infrastructure, price subsidies, and social services. At the same time, there was a restriction on external financing.

In addition to these budget constraints, increased economic competition among localities also emerged. In an effort to prevent goods from other regions from entering their market, some regions imposed high tariffs. Others gave local businesses preferential policy treatment to boost their competitiveness. This tension was further heightened by political pressures. The performance of local officials became increasingly evaluated by the economic wellbeing of their municipality (Zhang et al., 2022). Promotion was determined by their success in attaining targets (Li & Zhou, 2005).

4.1.2. Decentralisation and corruption

Financial decentralisation has led to local economic interests, but also led to corrupt behaviour among local officials. This is most clear in the emergence of ‘little money lockers’ (xiaojinku). These store extra-, read illegally obtained, budgetary funds. If legal ways of attracting capital are heavily constrained, this is the only viable option that remains.

It is very hard to control these off-budgetary revenues. The central government has however implemented some regulation. Additionally, it intensified the clampdown on non-budgetary resources. These measures did not stop illegal and irregular budgetary activities. Rather, they put local governments under additional financial strain (Tsai, 2004).

There are more sophisticated methods of corruption as well. One is by using funds from the local budget to start a private businesses and syphoning off parts of the profits. As of the late 1980s, the central authorities encouraged local governments and other state institutions to pursue "creative earnings" (chuangshou). The main idea was that the governmental financial burden could be alleviated by starting side businesses. Because these companies enjoy far going tax benefits, there is a proliferation of subsidiary companies (zigongsi), auxiliary enterprises (fuzhuqiye), and service companies (sanchan). The profits made by these affiliates go directly into funds that are not included in the budget. This makes oversight from outside parties a lot harder. This kind of corruption is in the literature referred as “hidden privatisation” (Oi, 1999). Similarly, some SOE’s are slowly and untransparently auctioned off. This system is referred to as “asset stripping” and was used in the 1990s during a diversion of state assets and profits into private hands (Ding, 2000). In the case of China, the authorities dealing with these privatisations also benefited from their financial success.

However, sometimes plain rent-seeking and corruption also occur. In China this phenomenon is known as “San Luan”, which means the "three arbitraries". These include: 1) arbitrary fees (luan shoufei), which refer to ad hoc charges for public goods and services 2) arbitrary fines (luan fakuan) and (3) arbitrary payments or expropriations (luan tanpai).¹

¹ Bernstein, T. P., & Lü, X. (2003).

4.1.3 Case studies

One clear example of the different ways in which local officials can abuse their power is the case of Xiao Guobang. From September 2007 to February 2014, he collected more than 3.1 million yuan of so called "project management fees". These were in actuality, bribes from various project. Xiao kept the money he received in "money lockers". What's more, he also took advantage of his position to illegally accept bribes totaling RMB 556,000 35 times to seek benefits for others.²

The case of a former director of a town welfare home is another example of how too much power in the hands of low level officials can lead to corruption. The man, referred to as Zhang, kept the pensions and social security checks of deceased elders which had previously lived in the retirement home. He kept the funds in a "money locker". According to the court, he amassed a total of 690.000 yuan during the period 2016 to 2017. His case was the start of a series of investigations which found that several of his colleagues engaged in similar acts of corruption in other towns.³

4.1.4 Application of the principal-agent approach

This approach analyses situations in which a principal delegates discretionary power to an agent. In an ideal situation, the agent acts in the best interest of the principal, but conflicts of interest can arise. In the case of elites through decentralisation, it can be applied to understand the relationship between the central government of China and the local officials.

In the case of China, the principal is the central government of China. They expect the local officials to act in the best interest of the country, but conflicts of interest may arise. I find this can happen due to the dual identity of local officials as both regulator and political official. Moreover, the fiscal recentralisation gave local authorities far going discretionary power for developing their local economy. Finally, political pressures like the promotion system also drive diverging interests.

² 肖, 国邦. (2015).

³ 李. (2021).

Conclusion

The devolution of power in China has turned local officials into economic agents in their own right. I find there is an increased interest in entrepreneurial development, creating competition between municipalities. Central in this was the tax-sharing system that recentralised fiscal management but left room for local economic autonomy. Another important result were the budget constraints of municipal governments. Finally, political incentives like the Chinese promotion system also play a role.

Local officials have sought to collect extra- and off-budget revenues, sometimes through rent-seeking and corruption. They negotiate special deals with businesses, such as preferential contracts, tax breaks, and lenient tax evasion enforcement. Another method involves using municipal budget funds to start a private business and syphon off parts of the profits. Finally, local officials also sometimes abuse their power through the kinds of rent-seeking which fall under the “San Luan”.

To me it seems clear that the governance reforms have resulted in several new kinds of corruption. Local officials emerged as a new kind of elites. By using their powers to regulate, allocate funds or other actions relevant to the municipal economy, they enjoy several financial and social benefits.

Although I emphasised the downsides of decentralisation, several researchers are quite positive about its results. Oi and Rozelle (2000) find that the increased economic agency on the local and provincial level have increased responsiveness and accountability. They describe two kinds of decentralisation which occurred, fiscal and administrative. The first has given local governments more control over their resources. It also gave them the opportunity to respond better to local issues and given them incentives to improve local development.

4.2 Elites through privatisation

Among this group I count former SOE managers and other highly placed employees within the centrally led economy. Although they do not wield a lot of political power, they have profited in monetary terms. This has happened for example through beneficial contracts or preferential deals. These elites often operated in concordance with local officials. In most cases during the forced privatisation of large chunks of the state-sector.

In what follows I will describe who these “elites through privatisation” are and how they have been able to engage in corrupt activities. My aim is to show how they work and what gave them opportunities to abuse their power.

4.2.1 SOE Managers

As employees of both the state-owned enterprise and the state, these elites were subject to a dual identity as well. The companies they worked for were the backbone of the Chinese economy and of great importance for the society. As an employer, SOE’s were also responsible for healthcare, housing and other social services often referred to as the danwei (单位).

Like in any country, there were opportunities for graft and stealing for lower level workers. Before the reform of the mid-1980s, most offenders were petty staff members at SOEs such as accountants, treasurers or other personnel directly involved in handling money. Since the mid-1980s, SOE directors and contractors became dominant violators.⁴ I will focus on the corruption perpetrated by higher level employees.

By focusing on higher level executives I look at how division heads and SOE managers have abused their power. Although the former fell under the supervision of the company managers, they still enjoyed a great deal of freedom. One example are heads of procurement who could extract rent from suppliers trying to land a contract with their company.

Yet, general managers tend to have more discretionary power which also means they have more ways to be corrupt. They were able to collude with their division heads or engage in bribery. Also important is that corruption by general managers often included larger sums.

If we look at reasons why SOE managers engage in corrupt activities, it seems that they have strong incentives to do so. I discern two broad groups, economic and politic.

The economic incentives are related to the low salaries of SOE managers. This is exacerbated by private salaries being exponentially higher than their public equivalent. What also plays a role is the considerable gap between their income and the assets they control.

The political incentives are related to the promotion system in China’s state-owned sector. Similar to local officials, SOE personnel are valued on their economic results. This evaluation

⁴ Pei, M. (2016). Cronyism in Action. In *China’s Crony Capitalism* (pp. 116–150). Cambridge, MA and London, England: Harvard University Press. <https://doi.org/10.4159/9780674974340-005>

is done by state officials. Smart SOE managers therefore seek to maintain a good relationship with their superiors. This inevitably leads to a system of gift-giving and other types of transactional corruption, all in an effort to please their superiors.

4.2.2 Corruption through privatisation

In what follows I will describe how reforms of state-owned sectors have created opportunities for SOE-managers to engage in corrupt behaviour. First I will describe “stealth privatisation” and “asset stripping”. Hereafter, I will also discuss the effects of new sectors on corruption.

First steps towards large scale privatisations occurred in the 1980s and 1990s. At the time, local governments were forced to either improve the workings of their state-owned enterprises or sell them off. The preferred way to handle this was through private-state partnerships. The main goal was to inject capital and to manage the former SOE’s. These instances provided opportunities for the “stealth privatisation” I have already described. Rithmire and Chen (2021) describe how this happens from the side of entrepreneurs. Firstly, local or provincial authorities invite an entrepreneur to invest in a state-owned owned company and offer a big stake, 40-49% for example. After this, the enterprise loans heavily from state banks to buy other smaller enterprises at low prices. Up until the moment of privatisation, the larger parent company borrows more heavily, using corporate assets, like land, as collateral. At the same time, members of the entrepreneur's family buy small stakes in the company through holding companies, giving the central owner control rights. This is what is referred to as stealth privatisation. Since the 1990s, this type of corruption became rampant. These activities no longer mean a small, one-time profiteering deal. Rather they become major operations which include stock trading, subcontract manufacturing, real estate investment and even organised smuggling.

The mechanisms used in the case of stealth privatisation have also been used on other occasions. After the fifteenth party congress, SOE managers saw new ways to enrich themselves. The central government sought to privatise large chunks of the state controlled sector. This meant that SOE’s and their assets had to be auctioned off. SOE managers abused their knowledge of the worth of their companies’ assets and profited from this moment. Plain stealing and siphoning off assets to private savings were common, this is what is referred to as “asset stripping”. However at times managers also omitted information about the company's

actual resources, earnings or outstanding credit. In this case they conspired with possible buyers to sell-off company assets at discount prices.

Finally, corruption by SOE employees also sprung up in the new economic sectors which rose up during the 1990s. Employees of banks, investment firms and stock exchanges engaged in corrupt activities as well. Individually or through small group collusion, they temporarily appropriated firm funds to speculate in the market. The profits are then pocketed personally. Though big cases still remain limited, small ones appear to be frequent.

4.2.3 Case studies

Chang Xiaobing engaged in several kinds of corruption typical of elites through privatisation. The Baoding Procuratorate finds that, from 1998 to 2014, he took advantage of his positions as the former deputy director of the General Administration of Telecommunications of the Ministry of Posts and Telecommunications, the chairman of China United Communications Co., Ltd. and the chairman of China United Network Communications Group Co., Ltd. Chang extracted bribes through project contracting and equipment ordering. What's more, he also engaged in so called asset-stripping by taking property from the above-mentioned companies, which is equivalent to RMB 3,762,880,100.⁵

4.2.4 Application of the principal agent approach

The principal-agent approach can also be applied to corruption by SOE managers. In the case of China's "elites through privatisation," they have been able to engage in corrupt activities because of the increased power they received after large-scale privatisation reforms and the information monopoly they wielded.

The SOE managers had dual identities as employees of both the state-owned enterprise and the state. Higher-level executives had more discretion and opportunities to collude with their division heads or engage in bribery. I discern two driving causes behind corruption by these elites. There are economic incentives, related to their low salaries and the considerable gap between their income and the assets they control. Political incentives on the other hand, are

江苏省委原秘书长赵少麟一审被判四年. (2017).

related to the promotion systems in China's state-owned sector. In this model, state officials are responsible for selecting who gets to fill executive positions in SOEs.

Privatisation reforms have created opportunities for SOE managers to engage in corrupt behaviour, particularly through "stealth privatisation" and "asset stripping." SOE managers abused their knowledge of the worth of their companies' assets and profited from this moment. Plain stealing and siphoning off assets to private savings were common as well. Finally, corruption by SOE employees also occurred in the new economic sectors which rose up during the 1990s.

Conclusion

In this study of the emergence of “elites through privatisation”, I have looked deeper into high ranking employees within the Chinese state-owned sector. The types of corruption they engage in include beneficial contracts, preferential deals, corruption, embezzlement and others forms related to their position. By looking at the incentives I have found that there are both economic and political incentives which play a role. The economic incentives are related to their low salaries and the gap between assets they control and their own income. The political incentives are similar to local officials. Promotion is linked to economic output and success, fundamentally however it is decided by state officials. Smart SOE managers therefore seek to cultivate their relationship with them.

4.3 Elites through party dominion

With these elites I refer to national politicians or their families. Similar to their local counterparts, these officials also engage in corrupt activities. The difference lies in the fact that these elites are often more powerful and head at times whole patronage networks. In my description of their working I will therefore focus on an other kind of corruption. It is different in the sense that it is not caused by conflicting interest between a principal and agent, but rather a product of patronage, nepotism and other group related forms of corruption.

In what follows I will first discuss who these high level officials and family members are. Hereafter I will discuss how they work, followed by an introduction to the concept of “red princelings”. I will also look at reasons why companies would opt for a national politician

instead of a local one. Finally, I will apply the political settlements approach to theoretically look at how these elites work and what causes their corruption.

4.3.1 High level officials

High level Chinese officials belong to one of the most comprehensive bureaucracies of the world. Nevertheless, a lot about them remains unknown. One example is that the academic literature is divided on reasons why they get promoted. Some studies find that promotion of Chinese officials is based on merit. Local or provincial leaders are more likely to be promoted if their economic results are good. When it comes to high level officials however, researchers come to different conclusions. According to Shih et al., (2012) the social connections determine who gets the promotion. They find that there is no evidence that exceptional economic growth influenced party rank in the case of party elites. In some of the party congresses since 1982, they found that cadres' ranking was strongly boosted by educational qualifications. Women confronted significant drawbacks in three of the five congresses they examine. Most importantly, princeling status and factional ties with various top leaders increased one's chances of rising through the CCP ranks during much of the reform period.

4.3.2 How they work

High ranking officials and their families have also abused opportunities for corruption during China's transition. These elites capitalise on their status in two ways. They could extract rent for asking a fee for lobbying. This is linked to the budget reforms I discussed earlier. Because the central government now wields greater control over budget-allocation, national officials can decide who gets which funds. In this process corruption and rent seeking arises. Another form is through buying assets at marked down prices. One clear example of this can be seen in the property development sector. Researcher focussed on the dealings of the families of China's high ranking officials, often refer to them as "red princelings". Because of the status attached to their family name they can in some cases become extremely wealthy. One of the clearest example is former Wen Jiabao, who's family has become very wealthy during his time in office. In these cases, the way in which these elites work is through a system of patronage. By relying on their explicit power as national politicians, or implicit power through their family ties, they are very sought after allies.

4.3.3 Why companies prefer national connections

The importance of national connections is visible in the tendency of companies to seek the patronage of higher level officials. Wang (2012) finds that there are two main reasons why businessmen would opt for such relations. To start with, local legislators have to move across territories often. They therefore have a hard time building out long lasting business-ties, national government officials in contrast are much less of the time rotated. Second, local authorities tend to be more often the victim of anti-corruption efforts. This means they are more subject to changing policy than their national counterparts.

4.3.4 Case studies

A clear example of the networked based corruption typical of high level politicians can be found in the case of Zhao Shaolin. He is a former member of the Standing Committee and Secretary-General of the Jiangsu Provincial Party Committee. Together with his son, Zhao Jin, he built a real estate empire. It was found that from 2007 to 2014, Zhao acted as the general counsel of the company and used his contacts to acquire preferential contracts and bribed RMB 4,448,950. The court sentenced him with to two years in prison and a fine of 15million RMB.⁶

A second example can be found in the case of Zhou Yongkang, a former member of the Politburo Standing Committee, and his son Zhou Bin. During the trial, it was quickly discovered that the Zhou family had amassed a fortune of 90 billion yuan. They had done this through the purchase of state-owned land and coal mines from local governments in the provinces of Sichuan and Yunnan at significantly lower prices than the market. After that, Bai Enpei, who was Yunnan's provincial party secretary at the time, admitted to the crime and was also taken into custody.⁷

⁶ 江苏省委原秘书长赵少麟一审被判四年. (2017). Retrieved from https://www.spp.gov.cn/zdgz/201705/t20170519_190981.shtml

⁷ He, J. (2020). Corruption and anti-corruption in China: a case study of high-ranking officials. *Journal of Financial Crime*, 27(3), 715–734. <https://doi.org/10.1108/JFC-03-2020-0041>

4.3.5 Application of the Political Settlements Framework

Political settlements is a framework that explains how power is distributed and exercised in a society. It looks particularly at the relationship between governance and state building. These settlements shape the distribution of power and resources, the rules of the game and the institutions that regulate social and economic life.

In the case of China, the Chinese Communist Party (CCP) is the dominant political force in the country. The party has a hierarchical structure that extends from the central leadership to the grassroots level. Within this structure, there are different factions and interest groups. They all compete for power and influence.

High level officials and their families are part of the elite that benefits from the existing political settlement. These elites have access to resources and opportunities that are not available to the general population. The promotion of officials, especially at the national level, is not solely based on merit, as some studies suggest. Rather, social connections, factional ties, and princeling status play a significant role in determining who gets ahead in the CCP. This indicates that the distribution of power is not based on objective criteria but on subjective factors that favour specific groups.

The emergence of "red princelings" illustrates the role of family ties and nepotism in shaping the elite in China. These individuals, who are related to high ranking officials, enjoy significant advantages in the business world. This demonstrates how political settlements can create a privileged class that is insulated from competition and accountable only to itself.

Next to having a say in promotion, the central level also has a greater say in who gets how much money. Following the wake of the previously discussed fiscal reform, the central level had more control over resources and the allocation of funds critical for of state building and governance. National officials have a greater say in deciding who gets what, and this power can be abused for personal gain. This type of corruption is not only about individuals seeking personal enrichment. Elites are also protecting their interests and maintaining their position in the political settlement.

Finally, the importance of national connections for companies also gives evidence of the kind of influence exercised by high ranking officials.

Conclusion

My analysis highlights the corruption of high-ranking officials and their families in China. These elites exert significant power and control over patronage networks. These are distinct from the principal-agent corruption seen at the local level because there is a hierarchical relationship between patron and agent. Through their explicit or implicit power, they engage in rent-seeking or acquire assets at discounted prices. The concept of "red princelings" gives evidence to the relevance of family ties and nepotism in the accumulation of wealth and privileges for these individuals.

Companies in China seek the patronage of higher-level officials due to the advantages provided by national connections. The stability and continuity associated with national officials, as well as their relative immunity to anti-corruption efforts, make them sought after partners. This preference further underscores the influence and significance of high-ranking officials within the political landscape.

The application of the Political Settlements Framework reveals that power distribution and resource access in China are shaped by the Chinese Communist Party (CCP), which dominates the country's political system. Merit-based promotion is not the sole criterion for advancement among officials, as social connections, factional ties, and princeling status play a substantial role. This subjective allocation of power reinforces the existence of a privileged elite class insulated from competition and accountable primarily to itself.

Additionally, the central level's increased control over resource allocation, following fiscal reforms, provides opportunities for personal gain and corruption among national officials. This corruption extends beyond individual enrichment, as elites seek to protect their interests and maintain their position within the political settlement.

5. Effects of Xi's anti-corruption campaign

In the previous chapter I have shown how new elites emerged during China's transition towards a market economy. Some abused their discretionary power. Others profited from the Chinese governance structure to enrich themselves or their networks. Low level officials and SOE managers suffered from dual identities, being tasked with developing local economies and having to adhere to central interest. Together with financial constraints on the budgets of municipalities and low salaries, this led to diverging interest. In the case of high ranking

officials, I have showed how they maintain patronage networks which enable them to enrich themselves and their family.

The question however remains how successful recent anti-corruption efforts have been. From 2013 onwards, Xi Jinping has started a crackdown on corruption by both “tigers” and “flies”. His campaign seeks to tackle abuse of power by both low level functionaries (flies) as well as their high ranking counter parts (tigers). An important reason behind his campaign was the fear that corruption could topple the hegemony of the party over the Chinese state and society.

If we look at the numbers, his efforts at combating corruption have been successful. The number of arrests between 2013-2022 were 2 million, spanning both local officials and high ranking politicians.⁸ Significant however, is that these include a number of high profile arrests. Xi has also introduced new, more independent regulatory bodies. Therefore it seems that there is a real effort at getting rid of corrupt government officials. There is however no consensus on the effectiveness of his policies. The campaign is frequently portrayed as a power struggle between factions and a means of increasing Xi Jinping's personal power.

In what follows I first introduce key aspects of Xi’s fight against corruption. This is followed by a discussion on how Xi addresses some of the causes I mentioned in the previous chapters. With respect to local officials, I will look at ways in which policies are seeking to address conflicting interests between local and central authorities. By focussing on the political settlements framework, I will look at whether he has been able to tackle corruption by high ranking officials. In a concluding part, I will look at how previous research looks at the achievements of the anti-corruption campaign.

5.1 Key aspects of Xi Jinping’s fight against corruption

The highest body dealing with corruption is the National Supervision Commission (NSC). It was established in 2018 through a constitutional amendment and has the same constitutional status as the State Council, the Supreme People's Court, and the Supreme People's Procuratorate. Xi also centralised anti-corruption efforts with the development of the Public Administrative Commission. Another crucial agency is the Central Commission for Discipline Inspection & Duties (CDDI). It is not a governmental agency but a branch of the party.

⁸ Marquis, C., & Qiao, K. (2022).

Finally, the military commission is responsible for graft and rent-seeking that occurs within the army.⁹ Interestingly, all three bodies fall directly under Xi's supervision.

Guiding principals in the fight against corruption are the "eight regulations" and "three forms of consumption of public goods". The eight regulations try to bring the party closer to the party and bring more discipline to the party members. It includes streamlining official events, ensuring a connection between leaders and "the grassroots". It also requires officials to live a sober life. Also included however is a plea to the media to limit mentioning the names or work of members of the politburo.¹⁰ The "three forms of consumption of public goods" refers to the expenses of government personnel going abroad on business, expenses for receiving officials from other regions and the purchase, operation and maintenance expenses of official vehicles.¹¹

Both focus on addressing very public forms of corruption. The idea behind this is that the party needs to be accepted by the people and that officials, as representatives of both the state and the party, should give the good example.

5.2 Addressing the causes of local corruption

As the previous chapter has shown, corruption by local officials was driven by diverging political and economic incentives. The political incentives are related to the Chinese promotion system which focuses on economic results as an important metric for career advancement. Officials also sometimes have to balance conflicting local and national interests. This lead to a dual identity as they are both agent of the state interests as well as entrenched in a local reality. At the same time their salaries are low and municipalities suffered from budget constraints. This is as an economic incentive.

One way in which the anti-corruption efforts have sought to address diverging interests of low-level bureaucrats is by reforming the promotion system. Now, performance evaluation also includes the quality of local policy work rather than only quantity. Concretely, this means

⁹ Liao, X., & Tsai, W.-H. (2020).

¹⁰ 政治局：委员到基层调研要简化接待 (2012).

¹¹ Wang, J. (2018).

that officials are incentivised to value better public services and social stability, instead of overly focusing on arbitrary targets.¹²

Another important aspect of the campaign is the use of high-profile corruption investigations and prosecutions as a deterrent. Xi's message was clear: corruption will no longer be tolerated and offenders face severe consequences. At the same time, Xi also emphasises the need for better morality among bureaucrats, visible in his efforts to improve moral education.

The anti-corruption campaign also tries to halt the use of "small coffers" (extra budgetary revenues). In the previous chapter I have showed these were used to bribe officials, either by giving cash or through gift-giving. The current campaign has incorporated these funds into the local governments' official budgets. As a result there is no more money to offer gifts or bribe other officials.¹³

A third aspect of his campaign against local corruption is the fight against sub nationalism. In this case, efforts address local officials who act as "local kings". Because of their long tenure in a particular region they have amassed significant wealth and powerful connections. Xi has sought to fight this through greater background checks before appointing officials to a particular region and increased controls on their day to day dealings through the NSC and CDDI.¹⁴

5.3 Addressing patronage networks

With respect to high level corruption and patronage networks, the political settlements approach showed that these are informal networks of personal relationships. These connections facilitate access to resources and power. High-level corruption can occur when individuals within patronage networks abuse their power to extract rents and benefits for themselves and their associates.

An effective anti-corruption campaign should seek to address the fact that power can reside within a select group of people. It should also work towards independent accountability mechanisms.

¹² Wang, J., & Mou, Y. (2021).

¹³ Wang, P., & Yan, X. (2020).

¹⁴ Bulman, D. J., & Jaros, K. A. (2021).

Xi's campaign has taken a number of steps to address high level corruption. I've mentioned above that he has centralised control over the NSC and CDDI. Also relevant was the reform of the appointment system. This has made the agencies more independent, certainly from middle and lower cadres.¹⁵

Another, very visible result of his anti-corruption efforts were the investigations and arrests of high ranking officials like Chen Xiaotong, Bo Xilai or Zhou Yongkang. All three were first expelled from the party and afterwards arrested. With their arrest, Xi effectively broke with tradition by investigating previous members of the politburo. Their trial was the subject of many tv reports and seen throughout the country. As mentioned above, their arrest also served as a warning to other corrupt officials.

However, the success of these efforts has been mixed. While some high-profile officials have been brought down through the campaign, there are concerns that the focus on individual cases may distract from deeper institutional issues that enable corruption to persist. Additionally, there are reports that some officials who are loyal to Xi have used anti-corruption campaigns to eliminate rivals and consolidate power. The initial conditions for patronage networks persist.¹⁶

Overall, the success of Xi's efforts to combat high-level corruption through patronage networks depends on how effective he is in addressing the underlying political settlements that enable corruption to persist. While the anti-corruption campaign has made some progress, there are deeper institutional and cultural factors that may require more fundamental changes to address.

Discussion of previous works

The campaign has received mixed reactions. A number of researchers find that the most successful part of the campaign has been in addressing local corruption. This is very important as the anti-corruption efforts seek to root out very visible kinds of corruption. According to Liao and Tsai (2020), the reformed anti-corruption agencies have investigated and arrested a lot of local officials. However, issues persist. Investigations are still motivated by political motives, with high ranking officials being less likely to be subject to scrutiny. What's

¹⁵ Lee, T. C. (2018).

¹⁶ Kautz, C. (2020).

more, arrested officials are pressured to confess to crimes. Their findings are in concordance with Bulman & Jaros (2021). They argue that central control over provincial authorities has strengthened under Xi. At the same time, however, their analysis also points to the resilience of some aspects of localism under Xi. Wang & Yan (2019) in contrast finds that the campaign has fostered an uncertain political environment. The crackdown on “informal institutional practices” like excessive dining, gift giving or banquets has diminished the use of patronage networks by local officials to mobilise resources. However, they also find that local officials have become less inclined towards innovative policies and developing the local economy.

Nevertheless, the campaign is believed to have broad support among the majority of ordinary Chinese.¹⁷ Xi’s recent anti-corruption efforts should therefore also be seen as a political project, an attempt at redemption from the party. According to Yuen (2014), the campaign is mainly about rescuing the Party and restoring public faith instead of eradicating corruption. Also important is that the anti-corruption efforts are intended only as a means of smoothing the way for economic reforms. Sorace (2019) and Brown (2018) raise similar points. They both disregard the aspect of power struggle and see Xi’s efforts as a way of recreating the Party as a political organisation. What is aimed for is no less than “fixing” the Party as an institution after decades of economic reform and insufficient discipline. This is a very interesting point and overlaps with one of the aims of the campaign: weeding out visible forms of corruption.

Conclusion

Previous research highlights the mixed results of the anti-corruption campaign. Although some acknowledge its success in addressing local corruption, underlying issues persist. One major concern is the influence of political motives in investigations and the lack of transparency, leading to high-ranking officials being less likely to face scrutiny.

In the case of low level officials, there have been efforts to reform the appointment system. In the case of patronage networks, the campaign has focused on more centralised decision making. This diminishes the possibility of influence of high level officials on investigations and policy work. Liao and Tsai point to the strengthening of central control over provincial authorities under Xi. Yet they also find that certain localist elements persist.

¹⁷ Nesbitt-Larking, P., & Chan, A. L. (2023).

At the same time, Wang and Yan argue that the campaign has created an uncertain political environment. With increased control on local officials, there is also a hinderance of innovative policy and economic development at the local level.

Nevertheless, the campaign enjoys broad support among ordinary Chinese citizens. That's why some scholars, see it primarily as a political project aimed at rescuing the Party's reputation and restoring public faith. In my analysis, I did not look at how Chinese civilians view corruption and what effect this has on persecution. The findings of Sorace and Brown however, point to a significant role played on the part of the Vox populi. Further research should therefore also look at how Chinese society affects Chinese politics.

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