

BOOK REVIEW ROUNDTABLE

Minxin Pei's

China's Crony Capitalism: The Dynamics of Regime Decay

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Yan Sun

David Bachman

Nicholas Calcina Howson

Minxin Pei

China's Crony Capitalism: More Than Property Rights

Yan Sun

Minxin Pei's excellent new book *China's Crony Capitalism: The Dynamics of Regime Decay* makes several important contributions to the fields of China studies, political economy, and comparative politics. It invigorates the debates about the viability of China's model of economic development and political system, develops a host of analytical concepts and tools for the study of crony capitalism, and provides a comprehensive and well-documented analysis of the evolution and nature of China's crony capitalism in the post-Tiananmen era.

Each of these contributions deserves further elaboration and acclamation, but for the purposes of this review, it would be more useful to critically assess Pei's arguments. The core argument advanced in the book rests on the connection between corruption and partial public property reforms as the defining features of China's crony capitalism. Decentralizing the rights of control over state assets without clarifying the rights of ownership, Pei argues, has provided those who govern those assets with "opportunities and incentives" for stealing undervalued state-owned assets (pp. 29, 34). Radical decentralization of administrative authority, moreover, has granted officials new discretionary powers, thus creating "capacity" and "means" for plundering state assets (p. 34). The mechanisms for performing these activities include "vertical collusion" among superiors and subordinates, "horizontal collusion" among insiders in state agencies, and "outsider-insider collusion" between officials and private businesspeople (pp. 37–43).

The above framework is crisp and brilliant but overstretched, achieving analytical clarity at the expense of empirical complexity. Incomplete property reforms certainly facilitated the theft of state assets both quantitatively and qualitatively, but with or without public property or its incomplete reform, many forms of crony capitalism covered (and not covered) in the book would still exist, given China's current political setting. In all those forms, the common denominator is unchecked public power—or to partially borrow Pei's term, ambiguous ownership rights over public power, not just over public properties. Regardless of property ownership rights in statutes, the execution of public policies and laws will always entail decision-making and the

YAN SUN is a Professor of Political Science at Queens College and the Graduate Center, City University of New York. She can be reached <ysun3@gc.cuny.edu>.

discretionary powers of individual officials. It is the checks and limits on these powers that make a difference. In Asia alone, crony capitalism has existed in states from East to Southeast Asia without having anything to do with public ownership per se. Pei's analytical prism of incomplete property reforms is too narrow to capture the range and dynamics of China's crony capitalism or its corruption in general.

First, Pei's model cannot account for all forms of crony capitalism in China and arguably not even all those treated in his own study. His framework does a superb job of explaining collusive corruption in areas directly involving state assets, such as land use, property development, mining, and state-owned enterprises. But it is less convincing in areas not directly involving state assets, such as public offices for sale, collusion with organized crime, and abuse of judiciary or regulatory power. The linkage of offices for sale to partial property rights, Pei argues, is that the practice binds subordinates to a network of "vertical collusion" with superiors, who must secure their cooperation in the delivery of favors to private businessmen (p. 79). However, Pei does not show any direct evidence of this linkage, basing the claim mainly on the fact that officials disciplined for the sale of office also engaged in bribe extraction in other areas. But there are many ways superiors can induce collusion from subordinates, including sharing spoils and reciprocating favors. In fact, few subordinates would conceivably pass up on opportunities to curry favor with superiors by cooperating.

In other forms of crony capitalism that do not directly involve state assets the linkage to unclear property rights seems even weaker. Of those covered in the book, official collusion with the mafia is attributed to the irresistible opportunities created by changes in property rights for the mafia to expand into high-profit sectors, which necessitates political protection, while the abuse of judiciary and regulatory powers is blamed on the ecosystem of crony capitalism created by partial property rights reforms. But in all these forms, the culprit remains unchecked public power. In addition, several important areas of corruption that are not covered in this book but that concern the public directly may have little linkage to public property reforms or crony capitalism—for example, corruption in the healthcare sector (such as overuse of expensive interventions and medicines), the education sector (such as admission to choice elementary and secondary schools), vehicle administration (vehicle registration and traffic violations), and the financial sector (loans and stock markets). In each case here, the key causes are monetary incentives, on the one hand, and meager regulatory

force over the discretionary power of administrators and professionals, on the other.

Second, Pei dismisses regional dynamics, arguing that a majority and a variety of provinces are represented in his data. On closer look, even in his own data, regional dynamics are an important cause and characteristic of China's crony capitalism and corruption. Here the key dynamics are the reach of the state: the weaker the central state, the more corrupt the local state and local officials. By Pei's own account, the party secretary at the county level is especially impressive in generating income from corruption despite his moderate status in the hierarchy of the Chinese Communist Party (CCP) (p. 86). He is right to suggest that this is because the county chief is at the front line of the party-state and has abundant opportunities to extract bribes. But this point needs to go further.

The importance of the county level and state power can be appreciated from the CCP's earlier success in bringing the state to the county level and below. Traditionally the landed gentry and powerful clans dominated here, serving to inhibit the reach of the state beyond urban areas. The imperial courts and the republican regimes barely had any organizational structure and staffing below the county level, eventually driving the mistreated and unprotected peasantry to the Communist movement. Upon coming to power, the CCP managed to wipe out the long-standing state weakness in the countryside. But this strength has been eroded by the recent decentralization of administrative power, leaving the county and prefectural levels (and below) the weakest links in the reach of the state (a prefecture is a collection of counties). The *chu*-rank cadre—the highest official rank at the county and prefectural levels and at the bureau level in urban areas—may be said to actually run China. These officials are at the forefront of governing their jurisdictional turf, while those at higher ranks are more removed from direct governance and rule more or less through the *chu*-rank cadre.

Pei's own data bears out these patterns, although he does not relate them to regional dynamics. Of the 50 cases of public office for sale that he documents, the two major groups of offenders were party secretaries in counties and prefectures (62%) and bureau chiefs in state agencies (18%), totaling 80% of the cases (p. 81). Not incidentally, Anhui, a poor province, accounts for the largest share of the reported cases (18%). Of an incomplete list of law-enforcement chiefs sentenced for criminal activities cited by Pei, 50% were chiefs of prefectural and county bureaus of public security and 39% were deputy chiefs of such bureaus, totaling 89% (p. 185).

In Pei's data on official collusion with the criminal underground and local mafia states, the affected provinces and cities also point to regional dynamics. As previous studies have found, a host of localized and structural factors have led to the rise of organized crime in post-Mao China, including historical traditions of secret and gang societies, industrial downsizing and massive unemployment, economic inequality and relative deprivation, and finally political corruption. Thus, a mix of local traditions and contemporary transitional woes may explain organized crime and local mafia states in the central, southeastern, and southwestern provinces in Pei's data, while the collapse of the heavy industrial economy may explain those problems in the three northeastern provinces. To ignore the different mix of local dynamics simply because many provinces have been affected by similar problems is both to understate the complexity of local causes and to overstate national patterns.

Third, the industries with well-defined ownership rights—cited by Pei as relatively immune from crony capitalism—are also affected, albeit in ways unaccounted for in the model. These include retail, light industry, and high-tech industries in the nonstate sector. One way they are affected by crony capitalism is through the receipt printing system. Regulatory agencies require that formal sales receipts be printed from authorized systems (requiring special software and printers), which must be purchased from authorized dealers, who in turn are usually cronies of bureau officials. Official receipts are imperative for payment, accounting purposes, and—for export companies—tax rebates. The official receipt systems are frequently updated, requiring firms to buy new versions periodically. For export companies, there is the additional trouble of buying official software to go through customs procedures online, with annual fees totaling thousands of yuan. Again, the authorized dealers are usually cronies of the regulatory agencies. Extra levies such as these have become routine and are taken for granted as part of doing business, but they place undue financial and procedural burdens on private firms.

Overall, Pei is right to argue that the party's interests lie in the self-perpetuation of its power, but *China's Crony Capitalism* offers little direct evidence for the assertion that crony capitalism has become the purpose and foundation of such power. The foundation of the party's power is indeed tied to state ownership of public property, but in a way different from that argued by Pei. The legitimacy of the CCP as a Communist party that represents public interests rests on its claims to socialism, but without public property ownership there would be no socialism or ideological basis for the party's legitimacy. The CCP has yet to find ways to effectively supervise the

administration of public properties as well as other spheres of public power. This problem is rooted in the public's lack of rights over state power through specific mechanisms of political representation and oversight over that power. That is, the CCP appoints itself as the political representative of the Chinese people and the overseer of its own power apparatus.

For the time being, China's crony capitalism is varied enough hierarchically to make the party appear to be standing upright. The party's crackdown on the "tigers," or high-level offenders, has restored much credibility to the regime. Yet ironically, it is the "flies," or low-level offenders, who have proved difficult to crack down on and require more than top-down political campaigns to rein in.

China Is Corrupt, but There Is More to the Story

David Bachman

Minxin Pei's *China's Crony Capitalism: The Dynamics of Regime Decay* is a major contribution, likely to significantly influence discussions about China and its future. He argues that China's political economy is characterized by crony capitalism, manifest in collusion between political and business elites, leading to the fundamental decay of China's Leninist system in its late stages. Moreover, the legacy of crony capitalism bodes poorly for a post-Leninist democratic regime in China.

There is much in this work with which I agree. Yet I have some major areas of disagreement as well. Pei uses a principal-agent framework to make his argument. In this framework, he sees lower-level officials (agents) unresponsive to the norms and incentives established by the upper levels of the political system (the principals). The agents use their ability to control and distort information as well as the limited time and resources the principals have to monitor their subordinates to evade central directives and expectations. It is certainly clear from the cases that

DAVID BACHMAN is the Henry M. Jackson Professor of International Studies at the University of Washington. He can be reached at <dbachman@uw.edu>.

Pei uses as evidence that there is a great deal of corruption in the Chinese political system. But does this mean that the principals are helpless or that local officials are unresponsive to the incentives established by the center? Corruption may be endemic, but is it the whole story or even the most important part of the story?

A significant amount of research has been undertaken suggesting that at least officials who want to rise to higher positions are responsive to upper-level incentives emphasizing economic growth targets, as well social stability and (perhaps until very recently) population control. While corruption has been a characteristic of party-state rule, so too has growth. Moreover, some of the activities that Pei sees as endemic corruption may also be critical to growth. As one study argued, higher land sales in one year correlate with higher transportation infrastructure spending in following years, which are correlated with higher growth. Higher transportation infrastructure spending is also correlated with higher land prices in subsequent years.¹ The allocation of land, insider trading, and “takings” of land from rural communities may all be deeply corrupt activities and an inefficient allocation of scarce resources. But it is not clear that this is as predatory and rapacious as Pei suggests, nor is it clear that the results are not in keeping with overall central (and regime) goals.

The principal-agent framework originates from writings in institutional economics and, as with many economic models, assumes that actors are maximizing their preferences or utilities. In this book, it appears that Pei believes that corrupt actors in the Chinese system are maximizing their income and/or power. But as I have suggested above, one might be both corrupt and advancing broader goals. Consider several cases. Mu Suixin was mayor of Shenyang before he was toppled in 2001, having been implicated in a bribery ring exercised by a local criminal element (p. 246). But Mu was also seen as an up-and-comer. He was featured on a PBS documentary, *China in the Red*, and he gave extensive access to the camera crew. He was portrayed as decisive, working hard to cope with Shenyang’s unemployment problems, at least until his arrest (also covered in the documentary). Presumably, he received approval from the Liaoning provincial party committee to have his work so publicly covered. Indeed, PBS access to Mu may have been approved by the party center. He was corrupt, but he also was seen as trying to meet popular demands and respond to central directives.

¹ Jing Wu, Yongheng Deng, Jun Huang, Randall Morck, and Bernard Yin Yeung, “Incentives and Outcomes: China’s Environmental Policy,” *Center on Capitalism and Society* 9, no. 1 (2014).

In a similar vein, we might view the situation of Bo Xilai, the former party secretary of Chongqing Municipality who was tried and convicted for corruption (and whose wife was convicted in the murder of a British citizen). Bo also appears to have challenged the leadership arrangement made for the 18th Party Congress, culminating in Xi Jinping's ascendancy. Bo is mocked for his attempts to revive "red songs and dances," but he was an innovative leader in Chongqing, trying to address issues related to housing and the *hukou* (urban residency) system, cracking down on corruption, and narrowing differences between urban and rural areas. Some of these policies and experiments were drawing national attention.

The point of these two examples is not to excuse the corruption or to deny its existence. It is to suggest that there may be more to Chinese Communist Party (CCP) governance than simply corruption. Overall party goals can be advanced despite (and maybe because of) corruption. One can be corrupt and still responsive to overall incentives coming from above. Moreover, as many quantitative studies of lower-level leadership (below the Central Committee) suggest,² those who rise fastest in the political hierarchy are those who create the most economic growth. Obviously for a prefectural party chief to advance to the provincial level, that person needs to produce rapid growth. That growth is a reflection of growth rates of the prefecture (composed of subordinate county and county-level city units). Thus, the prefectural head needs the county party heads to produce growth that is part of the aggregate prefectural totals. He or she may allow the county heads to buy their positions, but if the prefectural head is ambitious, he or she also needs the lower levels to produce results in keeping with central incentives.

Pei argues that corruption has reached unprecedented levels, involving more people and more money than ever before. Certainly, the sums involved and numbers of people implicated in particular corrupt networks are huge. He sees this as a decisive indicator of the late-stage decay of a Leninist regime, with the party-state as increasingly rapacious and predatory. Here, I think he makes a mistake that many who write on corruption do—they focus on money. But the currency of Leninist systems is power. In the Mao period there was little monetary corruption because of the overall levels of

² For example, Hongbin Li and Li-An Zhou, "Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China," *Journal of Public Economics* 89 (2005): 1743–62; Li Han and James Kai-Sing Kung, "Fiscal Incentives and Policy Choices of Local Governments: Evidence from China," *Journal of Development Economics* 116 (2015): 89–115; and Pierre Landry, *Decentralized Authoritarianism in China* (Cambridge: Cambridge University Press, 2012).

poverty, the planned economy, and limited consumer goods. Yet, abuse of power was rampant; discretionary authority could extract “favors”—such as sex in exchange for recommendations to attend university in the case of local cadres and sent-down youth—or when quotas came down for people to purge, officials would purge individuals whom they disliked. Mao and his allies would complain repeatedly about his opponents setting up independent kingdoms unresponsive to his concerns. The decade of the Cultural Revolution, one would have to say, was not a period when China was ruled by an effective Leninist system, as factionalism was pervasive. So we might ask, when was the People’s Republic of China (PRC) ruled by an effective Leninist party apparatus? If Pei is to argue that China can no longer be seen as a Leninist state, we should ask, when was it ever an archetypical Leninist state? And if its record as a Leninist state is at best spotty, what makes the current situation one characterized as late-stage decay?

Moreover, if Pei is correct and the PRC is in late-stage decay, it seems that this stage might be quite long. His database of 260 corruption cases covers 25 years, containing examples starting in 1990 and continuing through 2015. This is more than a third of the existence of the PRC. Throw in the Cultural Revolution, and more than half of the history of the PRC has been characterized by the failure of Leninism to be institutionalized. If that is the case, doesn’t this suggest that we may need to think about the trajectory of CCP rule in different ways?

Finally, I would question Pei’s characterization of the Chinese state as predatory. The classic case of a predatory state in the literature on comparative politics is Zaire (the Democratic Republic of the Congo) under Mobutu Sese Seku. A land rich in resources saw no growth, and almost all wealth created ended up in the hands of Mobutu and his cronies in Swiss bank accounts. Yes, there is rapacious and predatory behavior in China, but a predatory state could not deliver the kinds of economic growth and rise of income standards that have characterized China since the onset of the reform program. As Pei notes, much of the crony capitalism he finds concerns land use, mines, and state-owned enterprises. But these are likely to be diminishing sectors of economic activity, and some informed observers see the market triumphing over the political system.³

Minxin Pei argues in *China’s Crony Capitalism* that the Communist state in China is nearing its expiration date. He extensively documents

³ Nicholas R. Lardy, *Markets over Mao: The Rise of Private Business in China* (Washington, D.C.: Peterson Institute of International Economics, 2014).

and theoretically articulates how corruption is bringing about the fall of Communist power. I agree that the CCP faces an expiration date, and that corruption is part of the story. Yet I think there is much more to that story as well and that corruption is not quite as problematic as Pei sees it.

A Partial View of China's Governance Trajectory

Nicholas Calcina Howson

Minxin Pei's new book *China's Crony Capitalism: The Dynamics of Regime Decay* recites in detail the morass of corruption and collusion in which the People's Republic of China (PRC) party-state finds itself. Encyclopedic in scope, the book addresses corruption, extraction, and network formation in many of modern China's formal settings—including in the Chinese Communist Party (CCP), the *nomenklatura* system, state institutions, enterprises, the investment sector, and the real property market, among others—but also in nonformal contexts such as the rise of the “local mafia state.” The book's basic storyline is this: the PRC's radical devolution of intertwined political power and governance authority over productive assets in the early 1990s, matched with the accelerating creation of property rights, delivered on the party's mission to lift China out of poverty and create sustained economic development. It did so, however, at the cost of generating uniquely harmful incentive structures and resulting extractive and efficiency-defeating behavior that has contributed to regime decay and the frustration of any future advance to democratic and rule-of-law governance structures.

Passionate as the book is, there are aspects that detract significantly from its power and coherence. This review identifies three of those aspects: the data under examination, the theoretical framework, and the extended concluding argument of the book.

The first aspect is the data employed and how it is used. Pei's study is largely based on 260 cases of party discipline (and rarely criminal

NICHOLAS CALCINA HOWSON is a Professor of Law at the University of Michigan Law School. He can be reached at <nhowson@umich.edu>.

prosecution) culled from the state media over several decades—ranging from semi-autonomous sources like *Caixin* to party-state propaganda organs such as the *People's Daily* and Xinhua. The limited data set employed in the book and its origins have at least three implications. First, the substance of the book is largely determined by data originating from central-level propaganda and thus only rarely captures central-level party-state misdeeds. This would not be a negative if the data could be controlled for the fact that it is rife with often unproven (and some, in my knowledge, untrue) allegations deemed essential to a propaganda campaign or political attack. Second, there is a concern as to how representative these cases are of the different contexts prevailing in China today and over a period of more than three decades. Third, while Pei cautions readers that the data he invokes is not representative, he nonetheless draws rather robust conclusions based on such data. One example can be seen in chapter 3:

Even though the fifty cases...in the sample were not randomly chosen, they provide useful clues for understanding how this form of collusion [*maiguan maiguan*] is carried out. Geographically, the fifty cases are drawn from twenty-two provinces, indicating the prevalence of this practice. Nine cases are from Anhui, a poor province with a high incidence of *maiguan maiguan*, at least according to press reports. Henan, a relatively poor agrarian province, and Guangdong, the booming manufacturing powerhouse, have five cases each. Hainan and Shandong have three cases each. *As the sample includes both poor and prosperous regions, it appears that this practice exists in regions at all levels of economic development*, although, without more data, it is impossible to determine its exact distribution (pp. 80–81, emphasis added).

In essence, this passage states that because the limited sample of 50 cases includes an equal number of 5 cases from poor Henan Province and rich Guangdong Province, “it appears that this practice exists in regions at all levels of economic development.” Or does the caveat in the final clause deny that? This conclusion touches on a key question for development scholars—the relationship between economic development and governance—but is rendered on data that social scientists may find problematic for the reasons discussed above.

While I appreciate the attempt to theorize the phenomenon of collusive capitalism, the book’s second shortcoming concerns some of the assumptions supporting its theoretical analysis. For instance, Pei points out repeatedly that crony capitalism was not observed in China until the 1990s. This is true, but that is because the “capitalism” side of crony capitalism did not exist in China before that time. “Cronyism” instead occurred then in

the embrace of a centrally planned, state-controlled economy. This telling, therefore, confuses an *ex post* development (reform and opening to the outside world) for something in the long-term *status quo ante* (elite collusion and cronyism) stretching back through the entirety of the CCP party-state and indeed Chinese history.

A second example is the frequent connection Pei makes between “authoritarian” governance and crony capitalism, overcorrelating two independent variables. In fact, the book refutes any asserted link between an authoritarian regime and the rise of cronyism. As stated throughout the book, the move that enabled cronyism in reform-era China is the early 1990s devolution of political and economic power away from the center of authoritarian rule and the resulting dilution and fragmentation of national, or unitary, authoritarian governance. This is precisely the reason the PRC’s current administrative “center” is now so intent on recovering aspects of authoritarian rule.

Third, Pei’s theoretical framework does not give adequate consideration to alternative ways in which the political, economic, and societal mechanisms he describes might work. For example, chapter 2, “The Soil of Crony Capitalism,” outlines the party nomenklatura system of personnel appointments and correctly notes how it tracks onto board and senior executive positions at corporatized state-owned enterprises (SOE). Pei’s conclusions about this phenomenon fail to take account of an alternative story: how the nomenklatura infiltration of enterprise appointments might make the people in these jobs more accountable than they were historically as managers of SOEs, given that financial performance, personal civil or criminal penalties, or other failures (e.g., a declining stock price) will directly hamper their advancement inside the party. As a final example, when Pei theorizes the origins of the PRC’s crony capitalism, he identifies as critical a “lack of clarity” or “vagueness” of underlying property rights, by which he means the separation of formal “ownership” from use, profit-share, and disposition of nonresidual use rights (see, for example, pp. 180–82). Few observers, I think, would agree that there is a lack of clarity with respect to the residual ownership rights retained by the party-state with respect to any of the situations that the book invokes. Instead, the abiding issue in China today is about the “contest” over those well-understood rights.

The last of the book’s limitations I focus on here is in the extended argument that surfaces in the conclusion as follows: The PRC’s program of reform and opening to the outside world in the 1980s, the creation and distribution of property rights in the 1980s and 1990s, and the subsequent

devolution of party-state power and control of state assets in the 1990s and early 2000s allowed China to experience unprecedented growth while simultaneously creating sufficient conditions for the descent into crony capitalism; that crony capitalism has permanently undermined the party-state's legitimacy and effectiveness and thus contributed to the terminal decay of the CCP regime; the party's decline can only be reversed by the introduction of democratic accountability and the rule of law; and yet crony capitalism itself creates a strong path dependency that will frustrate any attempt to advance political reform or allow the CCP regime to save itself.

First, a threshold problem in this concluding argument is that the book's analysis is directed toward an end state called "democracy." Instead of setting up crony capitalism as a serious obstacle to good governance, it makes the easier move of positioning crony capitalism as a block to democracy and Western-style rule of law. Democracy could alternatively be seen as one means to a distinct end: legitimate and accountable state governance and sustainable economic growth, all delivered with a minimum of cronyism.

Second, as with every other state managing the transition from a state-owned, centrally planned economy to a market economy built around the exchange of property rights, the always-fraught step in this process is the distribution of newly created property rights into the hands of those who will wield those rights. There is no nation in history that has accomplished the creation and distribution of property rights into a developing market without initially putting them predominantly into the hands of, or having those rights opportunistically seized by, incumbent insiders, state officials, oligarchs, and so forth, especially when political reform is not enacted simultaneously. This distribution of, and contest over, newly crafted property rights is the *sine qua non* of creating even a semi-market-based economic system, given the structure out of which the PRC and developmentally similar states seek to transition. The only other available mechanism for the PRC was shock privatization, with the immediate distribution of all property rights and assets into non-party-state hands. That process for the PRC almost certainly would have created even more intense dysfunction, criminality, and ultimately political instability.

Third, concomitant processes over the past 30 years might be understood as a remedy for the unilateral descent to regime collapse. These include, among others, what the PRC calls "legal system construction," a socialist-sounding term for the creation of substantive law and regulation and the governance institutions necessary for implementation and enforcement of those new state norms. One view of development is that over time, and even without

basic political system change, the increased viability of and traction gained by these legal and governance institutions will temper and mostly defeat the phase of unbridled cronyism, which as I note above is a necessary, if ugly, initial stage for the creation and distribution of property rights under law, leading eventually to the establishment of commodity markets and long-term development. The failure to acknowledge these mutually interacting processes is a significant problem for the book, for *China's Crony Capitalism* does not look beyond the abundant indicia of cronyism or consider the reality of concomitant institutional development. True evaluation of the existence of the alternative development path that I suggest is underway in the PRC today requires serious inquiry into how the PRC's legal and regulatory system and associated governance institutions work, and how they work differently over time and in radically different environments in China. If Pei does see this other part of the PRC's development narrative, he seems to be arguing that it is not sufficient to arrest regime decay, and that true development with continued regime legitimacy requires the accountability promised only by a mix of democracy and rule of law.¹

¹ For an important analysis of how China's economic growth both prods and results from observable institutional change, thus providing concrete indicia not just of regime decay but also of enhanced regime legitimacy, see Yuen Ang, *How China Escaped the Poverty Trap* (Ithaca: Cornell University Press, 2016).

**Author's Response:
A Corruption Market More Sophisticated Than You Think**

Minxin Pei

The criticisms and comments of the three distinguished participants in this roundtable cover a wide range of issues, and it is impossible to address all of them here. In the space below, I respond to three main concerns about *China's Crony Capitalism: The Dynamics of Regime Decay* raised

MINXIN PEI is the Tom and Margot Pritzker '72 Professor of Government and George R. Roberts Fellow and Director of the Keck Center for International and Strategic Studies at Claremont McKenna College. He can be reached at <mpei@cmc.edu>.

in their reviews: (1) theoretical framework and arguments, (2) empirical evidence and interpretation, and (3) implications of the findings.

Theoretical Framework and Arguments

The book's main theoretical contribution is to offer an institutional explanation for the emergence of a particular type of corruption—collusive corruption perpetuated mainly to enable political and business elites to loot nominally state-owned assets at steep discounts or no cost. It traces the rise of this type of looting to a series of changes in China's property rights regime in the post-Tiananmen era that significantly decentralized control rights without clarifying ownership rights. The main theoretical argument itself is straightforward. In the context of other significant decentralizing institutional changes that have granted local-level officials enormous discretion (most critically power over personnel appointments), the combination of decentralized control rights and unclear ownership rights (or, strictly speaking, the absence of real owners) creates an ideal environment for political and business elites to collude and loot valuable assets such as land, mining resources, and assets in state-owned enterprises (SOE). Collusion is necessitated by both the decentralization of control rights (with multiple officials empowered with approval authority) and unclear ownership (which attracts multiple claimants). The same logic and institutional conditions also apply to the widespread collusive corruption in infrastructure investments.

This theoretical framework offers an original explanation for the rise of collusive looting in the post-Tiananmen era. It does not, however, claim to explain all forms of corruption, as Yan Sun implies. The type of corruption she identifies is best characterized as garden-variety theft or petty corruption, not looting. So the analytical framework centered on property rights does not explain garden-variety theft. But how do we account for the rise of collusion in corrupt activities that do not involve the looting of state-owned assets? In the book, there are three sets of cases where property rights are not directly involved: the purchase and sale of public office, collusion between law enforcement and organized crime (although in at least 20% of the cases crime bosses gained undervalued land and mines with the help of local officials), and collusive corruption in courts and regulatory agencies. It is instructive to note that in these cases the median corruption income of the chief official perpetrator ranges between 510,000 and 760,000 yuan—a fraction of the median corruption income of the chief official perpetrator colluding

with businessmen (9.5 million yuan) and the median corruption income of the chief perpetrator of collusive corruption in SOEs (6.4 million yuan) (pp. 120 and 155). The huge disparity in corruption income confirms the importance of property: officials engaged in garden-variety theft get paid for services, whereas those engaged in collusive looting are rewarded much more handsomely for obtaining undervalued or costless public assets.

The purchase and sale of public office constitute a critical linkage in the formation of collusive networks in the Chinese political system. Sun does not believe that *China's Crony Capitalism* provides evidence showing that party chiefs sold offices to subordinates explicitly to facilitate their corrupt activities (including doling out undervalued state-owned assets to their business cronies). This is not true. Of course, due to the limited information revealed in the official media and court documents, it is impossible to build an overwhelming case demonstrating this connection. Nevertheless, two pieces of evidence support this conclusion. Some cases included in the book show that the party bosses (or chief perpetrators) took bribes from subordinates who later did their bidding. In addition, the majority of officials (86%) caught for engaging in selling public offices also engaged in collusion with private businessmen, while 68% of officials caught for colluding with businessmen sold public offices—two telling indications of the connection between the practice of buying and selling public office and collusion between officials and businessmen (pp. 82 and 121). Sun's suggestion that subordinates would have gladly done favors for their party chiefs regardless of whether they had bribed these officials to be appointed or promoted may sound reasonable. However, for a party chief, asking someone who owes him no favor to perform an illegal act would be far too risky. By contrast, a subordinate who has paid a bribe is someone he can trust with such tasks.

The spread of collusion to law enforcement, courts, and regulatory agencies is driven by two dynamics, both of which are identified in the book even though they are not related to property rights. The first dynamic is the pervasive practice of buying and selling offices, which results in the formation of corruption networks in these institutions and creates the dynamic of "bad money driving out good money." The second dynamic is the intrinsic attractiveness of collusion, such as greater protection and profit potential established by the existing literature.

David Bachman questions whether the central Chinese state is helpless in combating collusion by its agents. Frankly, this is not the issue the book investigates. However, the sorry record of the Chinese Communist Party (CCP) in fighting corruption by its own agents shows that, at least in

the current institutional setting, the regime has great difficulty aligning the interests of its agents with its own or devising the right incentives. To be sure, the principal (the CCP) may be able to monitor and discipline a small number of top-level elites more effectively. However, as Sun suggests, the lower-level officials (or “flies”) present bigger challenges to the principal. Here, I disagree with Sun’s assessment of the principal’s capacity to discipline its agents. It is too early to conclude that Xi Jinping’s fight against corruption “has restored much credibility to the regime.” As for campaign-style efforts to combat corruption, the CCP has launched countless campaigns in the past, all ultimately ineffectual. Unless the CCP allows a freer media, reduces its role in the economy, or builds a more independent legal system, an approach that relies on campaigns will not likely succeed in destroying the corruption networks that have colonized the party-state.

Nicholas Howson is skeptical of the argument that crony capitalism emerged only in the post-Tiananmen era because he thinks there was no “capitalism” in the pre-Tiananmen era. This is not true, however—capitalist private enterprise emerged in the 1980s and had become a dynamic force in China by the end of the decade. To be sure, cronyism existed in the sense that the state’s deep and extensive involvement in the economy generated rent-seeking. However, in the 1980s there was no large-scale looting of state-owned assets, whereas such looting has become commonplace in the post-Tiananmen era. In addition, Howson believes that the book overcorrelates “authoritarian governance” and crony capitalism while refuting “any asserted link between an authoritarian regime and the rise of cronyism.” What I in fact argue is that, while crony capitalism (defined as collusion between political and business elites) can exist in any political regime, the most rapacious form of crony capitalism is likely to emerge in an authoritarian regime, in which the ruling elites enjoy unchecked power (a point made by Sun) and can use such power to loot the property under their control.

Howson also claims that one of the flaws of *China’s Crony Capitalism* is that it “does not give adequate consideration to alternative ways in which the political economic and societal mechanisms” described might work. He argues, for example, that the enormous discretion given to SOE executives might make them more “accountable.” The evidence compiled in the book, the abysmal financial performance by SOEs, and stories of massive looting inside SOEs recently revealed in China’s anticorruption campaign all indicate that such discretion has not made executives accountable. Howson also claims that “few observers...would agree that there is a lack of clarity

with respect to the residual ownership rights retained by the party-state.” The opposite is most likely the case. Few observers would agree that there is any clarity of the residual ownership rights. Because a party-state is a regime, not an individual, its purported ownership rights in reality can be seized by its agents who temporarily exercise direct control over these rights. Indeed, where such clarity exists, as in the case of corporations with real private owners (whether Chinese or Western), the type of looting observed in Chinese SOEs is rare, if nonexistent.

Empirical Evidence and Interpretation of Data

Studying corruption presents an enormous empirical challenge to researchers because the behavior is hidden and unobservable. Collecting a totally random sample of corruption cases is thus impossible, since some kind of selection bias is inevitable. Indeed, all empirical studies on corruption have to rely on two sets of data—surveys of perceptions of corruption and information released by public authorities (in this case, the Chinese party-state). Survey data may tell us how the public at large perceives the degree of corruption, but it reveals little else. Information provided by public authorities has its own limitations. In the case of China, the government may choose to release information on some cases but not on others. For instance, the CCP provides scant details of corruption perpetuated by its senior leaders. The party also discloses relatively sparse information about ministers, provincial party chiefs, and governors arrested for corruption. This is the main reason that the cases of corruption used in the book involve mostly local-level officials (city and county).

Besides the selection bias attributed to Chinese authorities, another problem is the reliability of the information that these authorities allow to be released. In a regime where investigations of officials accused of corruption are never transparent, official allegations, whether true or untrue, cannot be proved. Howson states that information released by official sources is “rife with often unproven (and some, in my knowledge, untrue) allegations.” He suggests that the “data can be controlled for” such a fact—without letting us know how “control” can be performed. To the extent that nobody can separate truth from falsehood in such data, such control is simply not feasible.

Faced with such limitations on the availability and reliability of data, researchers have two choices. One is not to touch the subject at all. The other is to recognize the inherent limitations of the data and treat it with caution. Obviously, most researchers working on corruption

have rejected the first option. In using official sources, my method was to collect a sufficient number of cases to ascertain both the quantitative and qualitative aspects of collusive corruption. Because of the inherent selection bias (in this case, I had to rely on cases prosecuted by the CCP's discipline and inspection committees at various levels), the quantitative findings must be treated as estimates reached with best efforts. Even when we account for such limitations, the quantitative findings of the book suggest that such estimates may not be far off the mark. For example, the estimates of the average size of a corruption network, of the relationship between the rank of officials and their corruption income, of detection risk, and of the disparity between the value that the corruption market places on protection service and undervalued public assets all appear to be quite plausible. While conceding the limitations of the data, I think a reasonable position is that the quantitative findings from this data set should be taken seriously until we have better data.

Even more useful, in my judgment, are the qualitative findings obtained from the analysis of the data set. Previous research on corruption in China not only overlooks its collusive aspect but also does not provide a sufficiently rich description of such activities. Careful examinations of the patterns of behavior in the cases of collusive corruption that were included in the data set have yielded illuminating details that help us understand how the corruption market in China works. For instance, we now have a better idea of how local officials finance their purchases of public office (mainly through theft and sometimes with the help of private businessmen). We have also learned how gift giving, dining, and socialization facilitate the establishment of access to officials, as well as how corruption networks unravel.

As the bulk of the cases involve local officials, Sun raises the issue of "regional dynamics" and posits a different, albeit familiar, argument that links weaker central control with local corruption. While this argument is not necessarily wrong, it needs to be established with empirical evidence that measures the weakness of "the central state." I agree that this is a subject worth pursuing, but it is not the objective of the book.

Implications of the Findings

The findings of *China's Crony Capitalism* raise several important issues. Bachman brings up the promotion of local officials in the Chinese party-state, citing research that tries to establish that performance, not bribery, influences promotion. Although this body of research has not

produced conclusive results, I believe it has inherent limitations and also does not contradict the findings of the book in the case of buying and selling public offices. First, such research focuses on only mayors and party chiefs, thus ignoring the vast majority of other officials. In reality, the officials excluded from such research are the most active buyers in China's illicit market for public office (although party chiefs, who normally are sellers, also become buyers when they seek promotions). Second, given that the competition for promotion is fierce, that the performance records of most local party chiefs and mayors may look similar, and that such records account for only a portion of their overall assessment, officials aspiring to higher office can improve their chances by currying favor with or directly bribing their superior party chiefs.

Another issue Bachman raises is the durability of one-party rule in the context of regime decay. I contend that, to the extent that collusive corruption is often observed in regimes experiencing late-stage decay, the pervasiveness of such corruption (roughly 45% of all exposed corruption cases involve multiple individuals) is an important indicator of an advanced state of decay (pp. 261–68). How long can a regime in late-stage decay survive? The honest answer is that nobody knows. The most reasonable answer is that, while internal corruption is one of the critical factors of the loss of legitimacy and fall of autocracies, other important variables—including some that are likely more important, such as economic performance and the unity of the ruling elites—will also determine the fate of the CCP. The fall of autocracies is rarely caused by one single factor.

For Howson, there may be processes and developments that parallel regime decay and offset its destructive impact on one-party rule. Although he does not point this out explicitly, many observers would agree that one of the developments—the enormous increase in wealth and standard of living—both provides the CCP with performance-based legitimacy and compensates for the economic losses incurred through the looting by the elites. The example that Howson does provide—“legal system construction”—is a more questionable one. To be sure, China has made much progress in constructing a legal system, but this progress is uneven at best. In terms of the legal system's capacity to constrain cronyism and looting, there is no evidence that it is effective in doing so, especially when the looters are those with political power (and direct control over the legal system).

The most intriguing question raised by Howson is whether the seizure of public assets by elites and regime insiders is unavoidable in an economy undergoing fundamental reform of property rights. While we

must recognize the enormous difficulties in creating clear, secure, and enforceable property rights in transition economies, it is also reasonable to argue that regime type is one of the key determinants of whether and how much the ruling elites can loot. Under similar circumstances, elites in autocracies can loot more easily and amass more illicit wealth than in established democracies or states that have made the transition to democratic governance, as shown by the different observed outcomes of privatization in the former Soviet Union and Eastern European countries. On this point, Howson and I have no real disagreement because he also notes the critical importance of simultaneous political reform, which I take to mean, in this particular context, democratization and the establishment of the rule of law. 

