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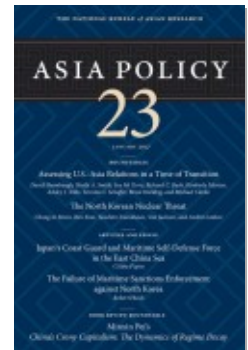
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Asia Policy, Number 23, January 2017, pp. 154-158 (Review)

Published by National Bureau of Asian Research

DOI: <https://doi.org/10.1353/asp.2017.0018>



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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

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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

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