Crackdown on Corruption: Should China have carried out heavy-handed corruption crackdown campaign?

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In all terms, corruption crackdown is an important way to pull poorer countries out of the poverty, and resolving the issue of corruption is essential to the continued long-run economic development. There are various methods to doing it. In some cases, the governments implement a relatively “softer” intervention focusing on “planting the good seed to prevent corrupted activities”.

One notable example was the Bogota’s crackdown on crime in 1995. Antanas Mockus, the head administrator during the crackdown, used “soft-rules” to change the norm of disobeying rules in the public. He hired 420 mime artists to mock drivers committing traffic offenses and painted starts on pavements where pedestrians had been killed in a car accident. Remarkably, traffic incidences had decreased by more than half. Along with similar programs, his administration has achieved impressive results.

On the contrary, the recent Chinese corruption crackdown has taken a more heavy-handed approach, prioritizing punishments for those who were found committing “bad behaviors” such as bribery and extortion. As a BBC news report has pointed out, 300,000 officials have been “netted” in 2015. Some 200,000 of these were given what was called “light punishment,” while 80,000 were given some more severe penalties.

According to the Foreign Policy’s report, severe punishments in the Chinese corruption crackdown include imprisonment, life sentence, and death penalties. As report added, 198 have been condemned to at least ten years’ imprisonment, fifty have been incarcerated for life, and eight have been executed.

These penalties are very harsh compared to most other countries. Take China’s neighboring country India for example, the recently enhanced maximum punishment for taking or giving bribes is only seven years of imprisonment. Nevertheless, the Chinese President Xi argued that corruption is “a disease that calls for powerful drugs”. Publically, he had promised to minimize both centralized and decentralized corruption, which are called by him, the “tigers” and “flies”.

Since Xi announced his plan on anti-corruption movement in 2012, numerous debates have emerged around the effectiveness of Chinese heavy-handed crackdown. Having shaken almost every province and punished nearly 300,000 officials, the weighing of benefits and costs of the Chinese heavy-handed crackdown on corruption is questioned. Should China have carried out such “harsh” corruption crackdown? The following paragraphs will depict some of the pros and cons to this issue.

Could the Chinese corruption crackdown slow the countries’ economic growth?

While the dominant voices have considered corruption as a burden to economic growth, Chris Blattman argued that corruption can sometimes “grease the wheels of prosperity.” As he explicitly pointed out, “Bribes can act like a piece rate or price discrimination, and give faster or better services to the firms with highest opportunity cost of waiting.” The fact that corruption might not hurt economic
growth is especially evident in China. In the past 50 years, though corruption has spurred, Chinese economy, nonetheless, has grown at an exceptional rate.

An economic study has found that corruption appears not to be a vital constraint on firms’ growth when financial markets are underdeveloped. The author also found evidence that corruption committed by firms indeed enhances the growth of their sales income. Another scholar, Andrew Wedeman, stated that for China, “corruption was not a serious barrier to the initial acceleration of growth.” During different periods’ of China’s development, briberies have been used to gain “an upper hand” to governmentally owned resources and accelerate development processes. The intricate exchange of “favors” in the corrupt relationships was thought to be an explanation for the “East Asian Paradox”.

Taking another turn on that argument, could Chinese corruption crackdown be slowing down economic growth?

One popular argument states that Xi’s anti-corruption campaign has hurt the economy at a micro level. Due to the fear of being caught, many officials have intentionally ceased the corrupt activities such as petty “gift-giving”. This caused a slowdown in several economic sectors and industries as consumption of those goods has decreased. For example, Macau’s gaming revenue falls 34% in 2015 and the sales of luxury goods inside the country fell 11% in 2014. A report by China Digital Times also suggested that nearly 60% of restaurants have faced cancellation since the austerity push began, and roughly 10 million yuan ($1.6 million) in hotel reservations were canceled. Overall, Xi’s crackdown on corruption created a negative shock to the consumption of certain goods, causing the shrinking of their respective domestic market.

Following the decline of domestic consumption, an increase in foreign consumption was observed during the Corruption crackdown. Officials who possess a large amount of money have begun “securing money aboard”, leading to considerable “flee” of wealth and capitals. This have gave rise to an enormous amount of money lost for domestic economic activities, and have caused negative impact to governments’ fiscal revenue. As commented by Zoe Alsop in an CNBC report, “2015 will be remembered as a year in which private money has been driven out of China and then stranded there while the economy back home adjusted jerkily towards a new normal.” This leads to a problem with the shrinking domestic savings, as reported by the BBC news, government bank deposits have been soaring, up almost 30% year on year since early 2014.

The dwindling of savings inevitably leads to a decrease in investment. However, the corruption crackdown has further reduced domestic investment by the producing inconveniences in doing business. An article in the International Business Times has described that effect. “Due to this corruption, many governmental officials started to cut the link off with entrepreneurs. As a result, some investors who had ‘got land and received funding ... were unable to go ahead with their projects.’” In many cases, real-estate developments and governmentally funded infrastructure projects were the ones being affected most. The process of private-public business cooperation has been substantially slowed. As the report added, “‘Now the bosses don’t want to make decisions anymore...Government departments are just not willing to make decisions quickly anymore...it’s getting more and more complicated to get anything done’” The increased hurdle in doing business ultimately leads to lower productivity, which can hurt the Chinese economy overall.

Aside from the disruption in the domestic business operations and investments, the heavy-handed anti-corruption campaign has also slowed foreign direct investments. As the International Business Times report states, “Some foreign investors, while generally happy to see the cleanup of a famously corrupt business environment, have expressed fears that the graft crackdown lacks transparency.” Furthermore, the sudden crackdown of corruption increased the risk of foreign investors doing
businesses in China. An article from Insight assets that, as many foreign entrepreneurs have already been used to the gift-giving business culture in China, they are threatened by the fine line that were drawn between giving gifts and making bribes. The possibility of having a business relationship be disrupted or stopped due to the change of China counterpart is yet another risk for the foreign investors. Ultimately, the increasing risks due to the anti-corruption campaign may push risk-averse foreign investors to withdraw from Chinese market, leaving a sizable impact on the Chinese already-slowing economy.

Another possible effect of corruption crackdown relates to the loss in capable governmental officials. On top of the 300,000 officials who have been taken away from their position, a report shows that the corruption crackdown has led to the suicide death of 23 officials in 2013. Many officials, despite their corrupt conducts, have lead sizable local economic growth in their cities and provinces. And because training governmental officials cost both time and money, this corruption crackdown has an added cost of not reusing and being able to entirely replace the governmental officials. Such lost in human power will likely work against the economic growth of the country.

Could the Chinese corruption crackdown help the countries’ economic growth?

On the flip side, as the latest World Development Report has indicated, corruption breeds poverty. It increases the transaction cost for business and society, intensifies inequalities and unfairness, and in many cases, hurts the international images and credibility of any given country. Thus, corruption crackdown seems to be considered as a necessity for Chinese sustainable growth.

Even though many have criticized the heavy-handed crackdown on corruption for hurting the rapid economic growth that China has been experiencing, a sustainable economic growth certainly requires a healthy institution and a non-corrupt political culture. The rapid growth of Chinese economy in the past decades does not all come from corruption. Even though there is a positive correlation, no proof as for now has been given suggesting a direct causal relationship. Rather, as Andrew Wedeman has pointed out, many Chinese officials benefited from the windfall profits from land transfers and the opening up of markets.

As China aims to transition from developing countries to developed countries, a regulated and non-corrupt market is vital. Corruption has caused inefficiency to the economy, especially in the public sector. For example, as described by Andrew Wedeman, China’s Minister of Railways Liu Zhijun and the deputy chief engineer Zhang Shuguang each skimmed about 800 million yuan (US $122 million) and 18 billion yuan (US $2.8 billion) from the development of China’s high-speed rail system, which will have reportedly spent 3.5 trillion (US$532 billion) by 2015.

When weighting in the negative externalities, corruption becomes a worse “tumor” to the Chinese society. A fatal crash on the country’s high-speed rail network in 2011, for example, was blamed partly on the country’s former railways minister, who was jailed for taking bribes and interfering in the bidding process for dozens of projects (IBTIMES report). The massive explosion at an illegal hazardous-waste storage facility in the port of Tianjin in August 2015, was also a result of corruptions among major officials. Thus, considering the inefficiency and the negative externalities that corruptions have produced, the crackdown of corruption would help deter those tragic events by improving the quality of the public products and services.

The Chinese heavy-handed crackdown could also help relocate resources and private investments to serve public better. As reported by an Economist article, after the start of the crackdown, “businesses are adapting to more ‘abstemious behaviors’. Five-star hotels, now virtually off-limits to officials, have
downgraded themselves to four starts. Private dining clubs have opened their doors to the public”. It is evident that the corruption crackdown has relocated resources to serve the middle and lower classes.

**Corruption crackdown is necessary, but maybe there is a better way**

In the end, the initiative President Xi took to crackdown corruptions—catching and punishing both the “tigers” and the “flies” is a timely decision. It is a necessary step to achieve the China’s “New-Normal”—a term used by President Xi to describe an economy that has shifted from high-speed to a medium-to-high-speed growth, and driven by innovation instead of input and investment.

An effective corruption crackdown will help relocate resources to most effectively serve a sustainable economy. It will also decrease the occurrence tragic incidences such as the explosion of the waste storage facility in the port of Tianjin. As shown in the example in Bogota, changing the “norms” of corruption in the society decreases the general breaking of laws at all levels. President Xi’s corruption crackdown, while having been criticized for its lack of transparency, does alter the norm of corruption in the political realm.

Nonetheless, the heavy-handed and punishment-based corruption crackdown method that China is using have created numerous challenges to its own success. Particularly, the fear of harsh punishments and investigations has created a negative shock to the consumption of certain goods, decreased domestic and foreign investments, forced the flight of a large amount of wealth and capitals, lowered the productivity of government officials, and lessened the number of government workers. It is not yet clear whether these effects are temporary or long-term. But the traumatic effect on the current Chinese market and society indicate that Chinese corruption crackdown might have been “too harsh” and “still quite some way from being truly effective”.

The Economist article tells an intriguing story that reveals some of the true colors of the Chinese corruption crackdowns. “In Sihong County in Jiangsu province, August 2014, authorities panicked when they heard that inspectors from the central government were coming. Having illegally converted farmland into highways, the bureaucrats carted in lorry loads of soil overnight to cover them up. Photos of the buried roads, now planted with soybeans, have since become something of a hit around the country.” While the anti-graft campaign in China has touched every type of corruption—from government projects to healthcare, none of the campaigns had actually encouraged openness and transparency in cracking down corruption. Perhaps this is why Bogota has reached a satisfactory result in a short period, while four years later, the seemingly endless reports about Chinese governmental officials put into jail still comes one after another.