

China's Twin Paradoxes: Rapid Growth and Rising Corruption

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According to conventional wisdom, rising corruption reduces economic growth. And yet, between 1978 and 2010, even as officials were looting state coffers, extorting bribes, raking in kickbacks, and scraping off rents at unprecedented rates, the Chinese economy grew at an average annual rate of 9 percent. This paradoxical trend was the subject of a lecture - [China: Rapid Growth and Rising Corruption in China](#) - in the Rising Power Initiative's Asian Economic Challenges series. Andrew Wedeman, professor of political science at Georgia State University, was on hand to talk about his recent book [Double Paradox: Rapid Growth and Rising Corruption in China](#) and why the Chinese economy performed so well despite widespread corruption at almost kleptocratic levels. You can listen to the event's audio [here](#).

Defying Conventional Economic Wisdom

Professor Wedeman argued that by any reasonable measure China has had a long standing serious problem with corruption. [Transparency International](#), an organization that ranks countries by their levels of corruption, identified China as the second most corrupt nation in the world on their 1995 list. Wedeman highlighted a number of China's high-profile corruption cases over the years ranging from dishonest real estate deals and massive smuggling operations to pension fund thefts and the most recent Agatha Christie-like murder-bribery story of Bo Xilai.

The [conventional wisdom](#) of economic theory would predict a strong negative correlation between corruption and economic growth. As the rate of extortion, bribes, kickbacks, and looting increased in a nation, one would expect economic growth to suffer. Professor Wedeman pointed out that in China, however, GDP per capita was unaffected by persistent corruption and grew rapidly since the early 1980s.

How Did China Do It?

China was able to defy this conventional wisdom thanks to three major reasons:

Timing

China's twin paradox of corruption and economic growth is unique in Asia: rapid growth through economic reforms came first and then corruption rose in response as a byproduct. As economic reforms in the 1980s produced a great deal of new wealth in the country, party officials asked themselves a simple question: should this new wealth go to entrepreneurs in this new economy or to the policymakers whose decisions drove reforms? The rapid intensification of corruption in China during the 1990s showed that party officials and budding capitalists decided to comprise and trade government economic favors for monetary gain.

Nature of reform

Chairman Deng Xiaoping, China's leader during most of the 1980s, undertook a series of economic reforms, including the transfer of assets such as property from the state to entrepreneurs, that fostered economic growth but also became an important source of corruption. At the time, the leasing of state property was a relatively new concept. The

individual party official who priced the lease and picked the clients could write deals that promised to give the official a "piece of the action." Hustling entrepreneurs stood to make a tremendous sum of money if they could secure a favorable lease and were more than willing to send a few kickbacks to the party official who could make it happen.

Anticorruption Campaign

Top Chinese leadership has been engaged in a three decades struggle against corruption. Wedeman contrasted China's corruption origin story with that of other "Asia Tigers" such as the Republic of Korea, Japan, and Taiwan. In those cases, political parties used corruption as a tool to forge a strong political machine to hold together the economy and rise up to political power. The Chinese Communist Party (CCP), on the other hand, already held sway in the country before economic reforms in the 1980s. The CCP justified reforms on the need to boost economic growth to ensure the party's political legitimacy in the minds of the Chinese population. Seen through this lens, corruption posed a danger to economic growth and thus party control.

Therefore Deng Xiaoping declared a "war on corruption" in 1982 that is still echoed by China's leaders today. Wedeman believes that Beijing's anti-corruption efforts are misunderstood and unfairly discounted by a Chinese citizenry whose judgment is based only on newspaper reports on the total number of corrupt officials caught, tried in court, and sentenced. He found that CCP leaders were serious about enforcement and punished many corrupt officials with long prison sentences, loss of desirable government jobs, and - in over 1,000 cases - the death penalty. Indeed, China's ranking in Transparency International has continued to improve in recent years and is where Wedeman would expect a developing country at China's level to be located.

Conclusion

Professor Andrew Wedeman's research revealed factors that helped China experience rapid economic growth despite widespread corruption: the timing of economic growth before corruption took hold, the specific nature of its economic reforms, and genuine anticorruption efforts. His future research will examine why today's corruption in China is trending away from public officials extorting private industry and more towards insider trading within the expanding private sector.

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