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The Rise of Kleptocracy

DOES CHINA FIT THE MODEL?

Andrew Wedeman

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Over the past five years, Chinese authorities under General Secretary Xi Jinping have undertaken a “tiger hunt.” A crackdown of unprecedented intensity and duration on high-level corruption has resulted so far in charges against five members of the Politburo. These include Politburo Standing Committee member Zhou Yongkang, formerly in charge of China’s internal security apparatus; Bo Xilai, party secretary of the sprawling city of Chongqing until 2013 and the son of one of the “eight immortals” (high-placed revolutionaries at the core of the coalition that secured power for Deng Xiaoping in 1978); Sun Zhengcai, Bo’s successor as Chongqing party secretary; and Generals Xu Caihou and Guo Boxiong, both former vice-chairs of the powerful Central Military Commission.

Altogether, upward of 150 senior officials (known in China as “tigers”), some seventy military officers holding the rank of major-general or above, a dozen executives of major state-owned corporations, several dozen private entrepreneurs, and a number of senior university administrators have been investigated, indicted, tried, or convicted. The rank-and-file of the Chinese Communist Party (CCP) have also been hit hard, with 2.5 million Party members investigated and more than a quarter-million indicted on corruption-related criminal charges. The People’s Court system tried 187,000 individuals on corruption charges between 2013 and 2016.¹ Although there may have been a political dimension to some of the top-level cases, the anticorruption drive’s sheer breadth demonstrates that it is far more than a mere means for Xi Jinping to pursue selective vendettas against his rivals. Rather, a campaign on this scale suggests that China’s leaders are seeking to send to officials at all

levels a mass message about what the leadership clearly sees as a grave and widespread problem.

The revelations from the recent anticorruption campaign did not come as a shock. It has been clear for many years that the boom spawned by China's economic reforms of the 1980s and 1990s also spurred a significant rise in corruption. Earlier corruption cases had featured members of the Party elite. Between 1982 and 2012, some fifty "tigers" had been caught in alleged corrupt acts. One series of scandals in 1995 led to charges against Chen Xitong, party secretary of Beijing and a Politburo member, for allegedly demanding kickbacks from developers. In 2006, Chen Liangyu (no relation to Chen Xitong), party secretary of Shanghai and a member of the Politburo, was charged with diverting money from the municipal pension fund. The Supreme People's Procuratorate, the state agency charged with investigating and prosecuting corruption, reports having issued approximately 1.5 million indictments for corruption-related offenses between 1980 and 2012. Those indicted included numerous officials with leadership positions: over 47,000 at the county and department levels, nearly 3,200 at the prefectural and bureau levels, and close to a hundred at the provincial and ministerial levels.²

Do China's corruption woes mean that the country has become a kleptocracy, or what has been called a "looting machine"?³ Answering this question requires a closer look at how corruption works in China, as well as at the meaning of the term. Kleptocracy is not synonymous with corruption, defined as the use of delegated authority for the purpose of unauthorized personal gain. Nor does it simply refer to the quantitative extent of corruption in a given country. Rather, the designation speaks to the way in which corruption is structured and organized: Kleptocracy is a form of vertically integrated, hierarchically organized corruption in which the main corrupt hierarchies come together at the peak of political power. A kleptocracy is thus not simply a state controlled by thieves; it is a system in which a "thief-in-chief" or small ruling cabal controls a broader circle of thieves who have captured pieces of the state. As such, a kleptocracy is essentially a mafia state, an organized-crime syndicate that controls the state and uses political power to engage in plunder.

Identifying Kleptocracies

How can one determine whether China—or any other country—is a kleptocracy? In order to approach this task, one must first identify the key features that set kleptocracies apart from other states afflicted by extensive high-level corruption.

As Oliver Bullough notes in these pages, the concept of kleptocracy was introduced into the discussion on corruption in the mid-1960s by sociologist Stanislaw Andreski. Early on, commentators used the term

kleptocracy to refer to a small set of states in which corrupt leaders harnessed their power to systematically loot the state treasury, extort bribes from wealthy individuals and multinational corporations, and seize control of profitable industries or companies. In some cases, these

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leaders effectively turned the national economy into a “family-run business.” The “classic” examples of kleptocracy included Zaire under Mobutu Sese Seko (1965–97); Equatorial Guinea under Francisco Macías Nguema (1968–79) and then his nephew Teodoro Obiang (president since 1979); Nicaragua under the Somoza family (1936–79); Haiti under François “Papa Doc” Duvalier (1957–71) and then his son Jean-Claude “Baby Doc” Duvalier (1971–86); and the Philippines under Ferdinand Marcos (1965–86).

Kleptocracies were set apart from other cases of pervasive corruption by the direct involvement of the state’s leader in corrupt schemes, and by the conversion of the state itself into an instrument of systematic plunder. Generally the thieving chief of state, sitting at the apex of a hierarchy of criminal syndicates, ruled through a neopatrimonial system in which he acted as the “godfather”—parceling out to his henchmen opportunities to plunder specific regions or economic sectors, arbitrating disputes, and raking off a portion of their “take.” So long as the “capos” gave the thief-in-chief his cut and did not “freelance” or try to cut into his personal rackets, they were all but immune from sanction. If they fell from grace, however, punishment could be swift and brutal.

Over time, the word “kleptocracy,” competing with a jumble of new terms for extreme corruption, came to be applied more broadly. Increasingly, commentators used “kleptocracy” interchangeably with “grand corruption,” which George Moody-Stuart defined as “the misuse of public power by heads of state, ministers and senior officials for private pecuniary gain.”⁴ Many cases of grand corruption differed greatly from kleptocracy as originally understood, however. Rather than being hierarchical, they took a decentralized form, with individual senior officials—including perhaps the state’s top leader—operating on their own and heading independent syndicates.

Grand corruption was generally combined with petty corruption on the part of lower-ranked bureaucrats and police officers. The term “endemic corruption” thus came to designate cases in which both the top and bottom of the state were corrupt. Another term, “crony capitalism,” emerged to describe particular cases of corruption concentrated at the top. These cases did not, as in the original model of kleptocracy, entail the state’s transformation into a corrupt syndicate, but rather involved illicit ties uniting the chief of state, his inner circle, and the major economic players in a tightly organized ring. Instead of using the state to

plunder, these elites focused on setting up monopolistic and oligopolistic structures that enabled them to create and scrape off rents.

As the boundaries between kleptocracy and other similar concepts grew fuzzier, the original defining characteristic of kleptocracy—vertical hierarchical integration with the state’s top leader acting as the thief-in-chief—tended to get lost, as did the distinctions between highly organized and more anarchic forms of corruption and between plunder and other corrupt activities, such as rent-seeking. “Kleptocracy” at times served merely as a catchall label for dysfunctional regimes in which corruption and repression were widespread. This shift, however, undercut the term’s significance and made it harder to distinguish states with corruption as their primary goal from other countries with serious corruption problems.

In recent years, a modified theory of kleptocracy has emerged. Conceived with an eye to power structures in Russia under Vladimir Putin and in other post-Soviet autocratic regimes, this updated definition describes a system of corruption more decentralized and oligopolistic than the original model. In these systems, powerful “oligarchs,” backed by syndicates of bankers, gangsters, and financial hustlers, compete with one another for the windfall profits created by “capturing” segments of the state. The chief of state and his inner circle do not control these oligarchs as the older model of kleptocracy had posited, but instead run their own shadowy “business” empire while playing oligarchs against one another and taking a cut of their gains. In this new kleptocracy, the focus is not on plunder per se, but rather on using state power to create and capture rents. In short, analysts examining the post-Soviet states have used the term kleptocracy to signify a form of grand corruption that differs considerably from the original concept of vertically integrated kleptocracies.

The new definition of kleptocracy also emphasizes the export of corruption from so-called kleptocracies to the “honest” political systems of the West. Kleptocratic oligarchs, it stresses, launder their corrupt cash through offshore financial intermediaries in the British Virgin Islands, Cyprus, Luxembourg, and elsewhere using complex sets of shell companies, after which the money seeps into the aboveground financial system in countries such as Australia, France, Great Britain, and the United States. The term kleptocracy thus has come to denote not just a particular type of corruption, but a system. Kleptocrats begin the cycle by stealing from the state; the operators of underground financial channels and shell companies then “scrub” the money clean of telltale signs indicating its corrupt origins; and major banks, financial institutions, and real-estate brokers in the West “stash” the cash away for future use by its owners.

Kleptocrats of old, of course, exported their filthy lucre, depositing it in anonymous Swiss bank accounts; buying chateaus on the French

Riviera, posh Kensington townhouses, or mansions on the Florida coast; and collecting fleets of luxury cars and private jets. Contemporary kleptocrats do the same, but analysts believe that these high-placed thieves are also using the ill-gotten gains that they have stashed in the West for political purposes, buying friends and influence with an eye to protecting their dirty nest eggs. The new definition of kleptocracy thus places greater stress on money laundering and the export of corruption from the “stealers” to the “stashers”—the “globalization of kleptocracy”—than did the original model.

Both approaches to the problem of kleptocracy offer valuable insights. To ensure that the concept remains a meaningful tool for singling out states with corruption as their prime objective, we should preserve the key distinction of the original theory: between vertically integrated syndicates bent on plunder and other, more chaotic modes of corruption. Yet it is also true that transnational financial networks are the key ingredient that has made it possible for ruling elites in today’s kleptocracies to fully bend their states to serve those elites’ illicit self-enrichment. And it is the political deployment of laundered monies overseas that ensures these elites are free to keep enjoying the fruits of their corrupt deeds.

Combining key observations from the original analysts of kleptocracy and their more internationally minded successors, we can identify six key dimensions on which kleptocracies stand out:

- 1) *Severity*: Is corruption serious and widespread, or is it limited in scale and scope?
- 2) *Integration*: How is corruption structured? Is it tightly and vertically integrated, or do its perpetrators act in a disorganized and even anarchic manner?
- 3) *Plunder*: Is corruption focused on directly plundering available sources of wealth, or are dirty monies generated primarily by creating and scraping off rents?
- 4) *Impunity*: Do corrupt officials enjoy tolerance of their behavior and protection by the chief of state, or do they face real risks of capture and punishment?
- 5) *Externalization*: Do the beneficiaries of corruption and plunder keep their gains at home, or instead export them to foreign safe havens?
- 6) *Deployment*: Are corrupt monies stashed outside the country hoarded as nest eggs and used mainly for consumption, or are they put to political use abroad?

The characteristics of a “pure” kleptocracy would be:

- 1) Endemic corruption, with corrupt activities pervading both the lower and the upper reaches of the state;

- 2) A tightly integrated hierarchy of corrupt syndicates headed by a godfather-like thief-in-chief;
- 3) Unchecked plunder;
- 4) Near-total impunity for those authorized to loot by the thief-in-chief;
- 5) Large outflows of corrupt monies; and
- 6) Extensive use of these monies to influence politicians and officials in other countries.

Such a pure kleptocracy is an “ideal type,” and it may be that no actual country has ever fully met these criteria. Nevertheless, comparing real cases to this ideal type allows us to distinguish between states that export corruption and those in which it largely remains homebound, as well as between states that are essentially criminal organizations and those in which corruption is so decentralized, or even anarchic, that the state itself has not become an instrument of corruption.

Is China a Kleptocracy?

The lengthy record of arrests of Chinese officials, with cases involving both grand and petty corruption, suggests that China does suffer from endemic corruption, or something close to it. China’s scores on the two most commonly cited corruption indices, however—the World Bank’s Governance Index and Transparency International’s Corruption Perception Index (CPI)—point to a “significant” but not “severe” problem with corruption. Both surveys have consistently given China scores that place it on or near the upper boundary of the “worst” quartile among countries. (It should be noted that rather than measuring corruption directly, both of these indices actually measure how outside experts and practitioners perceive the level of corruption in a particular country.)

Using an adjusted CPI scale according to which higher scores signify more corruption (with 10 being the highest possible score, and 0 being the lowest),⁵ China’s score averages 6.53 over the period 2000–12. China thus performed slightly worse than the mean score of 5.98 for all countries during these years, but virtually on par with the median score of 6.73. (The distribution of CPI scores is such that there are more countries falling above the mean than below the mean.) China’s average score was well below those for some of the states commonly cited as examples of kleptocracy—8.63 for South Sudan, 8.10 for Equatorial Guinea, and 7.54 for Congo (Brazzaville)—meaning that observers viewed China as notably less corrupt than these cases. Of the fifteen former Soviet republics, only the three Baltic states had better average CPI scores than China, and many of the other republics performed much worse. Thus, while it is possible that China suffers from endemic corruption—our first criterion for a kleptocracy—it does not appear to rank globally among the group of countries most severely afflicted.

Corruption in China does show signs of being organized. Xi Jinping's anticorruption drive has revealed sizeable networks of corrupt bureaucrats linked to two core figures, both now under lifetime jail sentences: Zhou Yongkang, one of the five Politburo members charged since 2012, and Ling Jihua. Zhou's career had taken him from managing the Chinese National Petroleum Corporation (1996–98) to overseeing China's internal security apparatus as secretary of the Central Committee's Politics and Law Committee (2007–12), with stints in other security or natural-resource-related posts and as secretary of the Sichuan Party Committee. Ling had been former CCP general secretary Hu Jintao's right-hand man. He served from 2007 to 2012 as director of the Central Committee's General Office—a post that made him the general secretary's gatekeeper—and before that as deputy director of the Central Committee department that manages personnel appointments. Authorities also uncovered a number of provincial syndicates, headed by local party secretaries, that had links to the Zhou and Ling networks.

The organization present in these corrupt networks, however, most likely did not rise to the level one would expect in a kleptocracy. First, corruption was not orchestrated from the top: Although both Zhou and Ling were powerful men, neither was the country's paramount leader, and there is no credible evidence that they were functioning as then-General Secretary Hu Jintao's henchmen. Indeed, there are few grounds to believe that either Hu or his predecessor Jiang Zemin acted as the “godfather” of a Chinese kleptocracy, orchestrating a hierarchy of corrupt syndicates.

Second, the corrupt groupings that did exist were relatively loosely organized. It does not appear that the local networks reportedly linked to provincial or municipal party secretaries such as Yang Weize in the city of Nanjing, Bai Enpai in Yunnan Province, or Su Rong in Jiangxi Province were part of a coherent “mafia” with Zhou as its “godfather.”

Third, much of the corruption uncovered during the crackdown seems to have taken place outside of any hierarchical organization: About a third of the senior officials taken down were “free-ranging tigers” who did not appear to be tied to any networks.

Finally, there is no strong evidence of direct links between “grand corruption” at the top and the mass of corrupt officials at the grassroots level. If grand corruption in fact encouraged petty corruption, then it did so by example, not by design. In sum, there is evidence that grand corruption in China was organized, but the syndicates did not make up a monolithic, vertically integrated, mafia-like structure.

What about the nature of corrupt activities in China? Research on kleptocracy tends to lump together a wide variety of tactics for illicit enrichment into a catchall category of “plunder.” Andreski, for example, mentions bribery, extortion, racketeering, smuggling, fraud, and “straightforward transfer of funds from the state treasury to the private

accounts of the principal members of the ruling clique.”⁶ Other analysts point to nepotism, patronage, counterfeiting, tax evasion, and (as Mats Lundahl notes) the creation and extraction of rents.⁷ It is useful, however, to follow the distinction made by scholars of corruption between

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“transactional corruption”—corrupt activities, such as bribery, that involve the trading of favors for cash or other transactions between multiple parties—and instances of officials engaging in theft on their own or in league with others, for instance through embezzlement. In general, the term “plunder” as used by analysts of kleptocracy corresponds to the latter category, which might also be described as “official theft”: It

centers on a one-way flow of benefits into the hands of corrupt officials. In contrast, transactional corruption involves a two-way flow of benefits, with a private party paying an official to use his or her authority in some specified manner. Bribery is a classic example of such corruption, although of course not all bribes involve reciprocal benefits; an official may, for instance, threaten some negative consequence if bribes are not forthcoming.

Since widespread plunder is a key mark of a kleptocracy, assessing the relative prevalence of these two variants of corruption will help to clarify whether China conforms to the kleptocratic ideal type. The ratio of embezzlement by officials, a classic example of “plunder,” to bribery, which is most often transactional, provides a crude metric for determining which variant is most common. We can investigate this question using a database developed by the author of 6,339 reports on individuals involved in corruption-related activities in China between 1995 and 2017. The bulk of these reports date from after 2008, and 5,335 of them supply information on the nature of the offense. Of these cases, 6 percent centered on offenses that involved neither bribery nor embezzlement, 74 percent concerned bribery, 12 percent had to do with embezzlement, and 8 percent featured a mixture of bribery and embezzlement. These data would appear to suggest that China tilts heavily toward transactional grand corruption, meaning that here it parts ways with the kleptocratic model.

Estimating impunity from prosecution is difficult because, although we can find out how many officials have been charged, we cannot measure the “actual rate” of corruption (the total percentage of officials, caught or uncaught, who are corrupt). It is thus impossible to calculate the likelihood that corrupt officials will face consequences. As noted earlier, however, China has been waging an intensive crackdown on cor-

ruption since 2012, the latest “offensive” in a “war on corruption” that began in 1982. Thus, even though we cannot estimate the odds that a corrupt official will get caught in China, we can certainly posit that they are not negligible. Most likely, China belongs somewhere around the midpoint of a crude scale running from general impunity to the certain capture and punishment of corrupt officials.

The final two dimensions, externalization and deployment, are equally difficult to estimate. Externalization is often equated with capital flight, which estimates suggest is extensive in China (adding up to a figure of more than US\$400 billion in 2014).⁸ Not all capital flight, however, involves looted monies. Moreover, in order to assess how important international financial flows are as a means for Chinese officials to dispose of ill-gotten gains, we would need to compare the quantity of dirty money flowing out of China to the total amount of monies being siphoned off through corruption in the first place—another number it is virtually impossible to determine. But circumstantial evidence offers some clues: Given that corrupt officials are frequently found sitting on mountains of cash that they have apparently not been able to launder out of China (or within China, for that matter), it seems probable that, the sheer amount of money flowing out of the country notwithstanding, China would fall somewhere below the midpoint on a crude scale of externalization. Although some of the proceeds of corruption probably do find their way offshore, this seems to be a far from universal practice among corrupt elites.

How much of the money that flows out of China is used to surreptitiously influence politics in the West is even more difficult to determine. Much of the Chinese money flowing into the United States appears to go into buying real estate. Some does appear to have been used for political purposes. There were charges that Chinese “operatives” donated money to Bill Clinton’s 1996 presidential reelection campaign. Fugitive billionaire Guo Wengui may have hoped to leverage the White House “connection” of his expensive membership in President Donald Trump’s Mar-a-Lago golf club to secure political asylum. A number of China’s new billionaires have also made sizeable charitable donations to universities and other public institutions in the West. Nevertheless, there is little evidence that significant amounts of the money flowing out of China are going to finance overtly “political” activities. When it comes to political deployment of the proceeds of corruption, then, China likely falls much closer to the “negligible” end of the scale than to the “significant” pole.

Corruption in China, then, may “lean” toward the kleptocratic ideal type in two respects: First, corruption appears to be relatively severe. Second, there is evidence of corrupt networks that link members of the senior leadership to one another. But even on these fronts, China does not fully match the kleptocratic model: These networks are not inte-

grated at the top, and the current and past chiefs of state do not appear to have been acting as the “bosses” of a ruling mafia. China diverges even more significantly from the kleptocratic model on the four other dimensions. Rather than plunder predominating, other forms of corruption seem to be more widespread; numerous arrests show that Chinese officials cannot count on being able to loot with impunity; offshore financial channels are not readily available to those looking to stash away their corrupt monies; and the use of corrupt funds for political purposes abroad appears to be relatively limited. Instead, the Chinese case illustrates an alternative model of widespread corruption—one in which the deployment of public power for private gain is perpetrated not by a vertically integrated, internationally connected mafia state, but rather by uncoordinated networks of corrupt officials.

NOTES

1. Supreme People’s Court, “Work Report to the National People’s Congress” [in Chinese], various years, http://gongbao.court.gov.cn/ArticleList.html?serial_no=wx.

2. Supreme People’s Procuratorate, *Procuratorial Yearbook of China* [in Chinese] (Beijing: China Procuratorate Press, various years) and “Work Report to the National People’s Congress” [in Chinese], various years, <http://www.spp.gov.cn/gzbg>.

3. Tom Burgis cited in Ben Judah, “The Kleptocracy Curse: Rethinking Containment,” Hudson Institute, October 2016, <https://s3.amazonaws.com/media.hudson.org/files/publications/20161020JudahTheKleptocracyCurseRethinkingContainment.pdf>, 8.

4. George Moody-Stuart, *Grand Corruption in Third World Development* (Berlin: Transparency International, 1994), 1.

5. I have here inverted the scale used in the published CPI, where lower scores represent more corruption, in order to provide a more intuitive ranking.

6. Stanislaw Andreski, *Parasitism and Subversion: The Case of Latin America* (New York: Schocken Books, 1969), 65.

7. Mats Lundahl, “Inside the Predatory State: The Rationale, Methods, and Economic Consequences of Kleptocratic Regimes,” *Nordic Journal of Political Economy* 24 (1997): 31–50.

8. Frank R. Gunter, “Corruption, Costs, and Family: Chinese Capital Flight, 1984–2014,” *China Economic Review* 43 (April 2017): 105–17.