According to William Overholt, President of Fung Global Institute and Senior Fellow of Harvard University Asia Center, the word "corruption" actually covers several quite different phenomena. There is a classical distinction between graft and corruption. Graft is a tip, even a very large tip, for doing one's job. In contrast, corruption in the narrow sense is a payment for doing something that undermines national policy or the national interest.

Quite separate from these two is what the Japanese call structural corruption. While most Japanese officials and business executives are individually honest, control of the legislature by five powerful interest groups enables those interest groups to achieve their private interests at the expense of the nation. For instance, the construction lobby has successfully pressured the government to fund vast unnecessary infrastructure, often spending more than the entire United States. Japan has bullet trains to small villages, world-class bridges used mainly by animals, and concrete lining of almost all its rivers and streams.

China’s problem is mainly graft—currently very serious, but nonetheless the roads get built and the children get educated. Indian corruption, in contrast, means that the roads do not get built, vast numbers of children do not get educated. Indian corruption is much more destructive than Chinese graft. Japanese structural corruption in turn wastes far more resources than Indian corruption or Chinese graft.

According to Overholt, Jiang Zemin and Zhu Rongji limited corruption by reducing structural opportunities for graft. Top government positions were cut by half while salaries were quadrupled. Bureaus were required to cut regulations. Industrial policy promoted competition. Officials were evaluated by objective performance criteria. The military was required to give up a majority of its businesses.

Under President Hu Jintao and Premier Wen Jiabao, these reforms were reversed. The size of government bureaucracies almost doubled. Market reforms stalled. State owned enterprises (SOEs), local governments and the military became hugely powerful interest groups. Military officers again became wealthy businessmen. Hence graft mushroomed. The risk of Japanese-style structural corruption loomed.

The social and economic consequences were severe. A triangular coalition among the communist party, government officials and business tycoons congealed. Social mobility declined and a sense of unfairness became pervasive. Graft reached a scale so scandalous that it threatened the Party’s legitimacy. The economy began to suffer. Just
when smaller enterprises became crucial to growth, officials became reluctant to approve small projects because they generated insufficient squeeze. An emergent entrepreneurial class became extremely resentful of arbitrary Party extractions.

Western social scientists often blame the one-party authoritarian regime as the root cause of extreme corruption. Overholt retorts that corruption in democracies like India, the Philippines and Thailand is more destructive than China’s and has its roots in the structure of democracy in very poor countries. In these countries, political contributions are almost exclusively bribes. “Democratic” court systems are too complex and expensive to provide justice to peasants or to convict a sufficient number of criminals. Democracy is an antidote to corruption only in middle class societies.

The Hu-Wen era set the background for Xi Jinping’s anti-corruption campaign. The campaign is essential to protect the Party’s legitimacy and it is a vital economic reform tool. China’s economic transition requires financial reforms that will hurt all the newly powerful interest groups—SOEs, banks, Party and government bureaucracies, local governments and the military. The anti-corruption campaign is essential to neutralize their opposition. But this leads to a paradox. The anti-corruption campaign, necessary to reform, frightens and immobilizes the officials whose leadership is equally necessary to reforms. To succeed, Xi must resolve this paradox.

Hong Kong resolved the paradox by having a fierce anti-corruption campaign, then declaring an amnesty while creating a powerful agency (ICAC) to punish any future misdeeds. South Korea had waves of scandals that first cleansed politics and later business but did not immobilize decisions for extended periods. How China can both minimize corruption and nurture confident reformists decision remains unclear.

The Chinese anti-corruption campaign and the planned economic reforms both threaten the most powerful interest groups simultaneously—in contrast with, for instance, Ataturk’s reforms in Turkey, where he attacked targets sequentially to preclude a broad anti-reform coalition. Xi Jinping’s advantages are the shock of initial success together with overwhelming public support so far.

Elsewhere, police anti-corruption campaigns have often achieved only temporary effects. Structural reforms like Zhu Rongji’s have more permanent effects. China’s leadership has begun some structural reforms, such as centralizing judiciary appointments to reduce local officials’ manipulation of the courts. Market reforms, including enforced competition rules and promised leveling of the playing field for SOEs, could help. The leadership has expressed determination to make regulation more transparent and predictable. Such efforts can in principle achieve enduring success, but they are limited and have barely begun. The outcome is uncertain.

2