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#391: Not the highest bidder: China's crony capitalism and the large scale looting of public assets

VOICEOVER

This is Up Close, the research talk show from the University of Melbourne, Australia.

PETER CLARKE

Hello, welcome to Up Close. I'm Peter Clarke. Crony capitalism is an ominous phrase. It conjures up collusion, corruption, deeply unfair market advantages and unlawful transactions that financially benefit insider players in the capitalist economy. The phenomenon is globally widespread in both well regulated, ostensibly democratic countries and those polities with less securely established or largely absent democratically based practices, laws and institutions. The depth, breadth and intensity of crony capitalism lie along a continuum. Political and economic systems, history and culture all play into the possibilities for and ease of entrenching crony capitalism. For example, we've all seen crony capitalism in full flight in Russia, since it emerged from the Soviet era. In still nominally communist China, the pervasive character of crony capitalism there is much harder to track and analyse. Our guest this time on Up Close, Minxin Pei, has done exactly that. Dr Minxin Pei is Professor of Government and Director at the Keck Center for International and Strategic Studies at Claremont McKenna College in the United States. He's written extensively about China, its governance and the republic's relationships with the rest of the world. Late in 2016, Professor Pei's book, *China's Crony Capitalism: The Dynamics of Regime Decay* was published. That book and its research will be the basis of our conversation today. Minxin Pei, welcome to Up Close.

MINXIN PEI

It's my pleasure.

PETER CLARKE

Before we examine China's crony capitalism more closely, I really do want to come to grips with what crony capitalism actually is more widely. In your book early on, you quote the president of China, Xi Jinping, who describes an interweaving of collusive techniques between government officials and business figures and within government circles between superiors and their subordinates. What do you believe

are the key characteristics of and incentives for crony capitalism worldwide?

MINXIN PEI

There are several universal characteristics of crony capitalism. The first one is that it is a marriage between those who have political power and those who have economic wealth. The second characteristic is that they collude with each other for mutual benefit. For example, somebody with political power is a politician in a democratic system or a politician in the Chinese one party system will use his or her power to gain some material benefits from their cronies who are capitalists and then in return, the capitalists would use their contact with these political figures to gain economic benefit. So it's a mutually advantageous relationship and a third characteristic is that crony capitalism is an exclusive system. Only a relatively small number of people can be incorporated into this realm of crony capitalism.

PETER CLARKE

Because there's dangers of too wide a circle is going to be more dangerous, a higher risk, is that part of that?

MINXIN PEI

No because too wide a circle then you lose the economic benefits because you don't want to share your spoils with too many people.

PETER CLARKE

We're going to use these words, collusion and corruption quite a lot in our conversation. Let's just home in on those for a moment. They're obviously related but distinctly different conceptually. Let's just go into that a bit more. Just make that distinction between the two.

MINXIN PEI

Well, there's corruption and there's collusive corruption. Two are quite distinct. If we talk about corruption as an individual act, then it's everywhere. So if I engage in a corrupt act such as embezzling government funds or accepting bribes, I do not get my colleagues involved. This is a private individual act. It's corruption, but if I engage in collusive corruption, that means I will have accomplices, in the government primarily. The Chinese definition is that you have three and more people involved in the case. That's called collusive corruption. Incidentally in China, roughly 45 percent of all cases of corruption are collusive corruption. So here you have the distinction between the two.

PETER CLARKE

That figure, 45 percent, immediately points to something like an endemic corruption in China.

MINXIN PEI

Absolutely and what's interesting about corruption and collusive corruption is that before 1990 or before 1992 to be more exact, there were very few cases of collusive corruption. Collusive corruption emerged as a widespread phenomenon only after

1992.

PETER CLARKE

We're going to come back to China specifically again in a moment, but we've had a bit of a heads up on the extent of corruption in China. We've talked about those two key elements already - power and wealth and the interaction between those two groups of elites, I guess, but what are the political and economic conditions that favour a burgeoning of collusive corruption or crony capitalism?

MINXIN PEI

I think the most important one is a government's involvement in the economy. Crony capitalism in the west, western democracies, there's also crony capitalism in dictatorships. The key difference is not just whether one country is governed by a democratically elected government or not. The key difference actually lies in whether a government in the former system or the latter system controls a lot of economic wealth. It so happens that in democratic societies, the government controls much less wealth and generally involves itself to a much less degree in the economy than in the dictatorial world. This key difference means that crony capitalism is of a fundamentally different nature in one world as opposed to another.

Let me just elaborate this point a bit. In the democratic world, crony capitalism consists mainly of doing favours in regulatory affairs. That is, you want the government to go easy on you in terms of environmental easement, in terms of approving a business transaction, but in the dictatorial world, crony capitalism consists of something much more sinister, that is, those who are very well connected capitalists can actually loot the wealth that belongs to the people because in a dictatorial world, the government or the state controls enormous economic wealth.

PETER CLARKE

As we take that wider view, you've mentioned the east versus the west capitalism in more our sort of democracy here compared to China. So we have obviously in Australia sly insider trading and we have some pretty large scale corruption - nothing like in China of course. I have to ask you, do you believe that crony capitalism is simply intrinsic to capitalism itself?

MINXIN PEI

Oh yes, because crony capitalism coexists with political power and of course the degree of crony capitalism varies a great deal. For all the things we say about corruption in the US, in places like Australia or in Canada, you just cannot compare these advanced wealthy democratic societies with places like China, Russia, Venezuela or Iran where dictatorships actually control huge amounts of public owned wealth and elites who control such wealth can appropriate or misappropriate wealth for their own private use.

I think what occurs in democratic societies is petty theft, but what happens in places like Russia, China, is you might call large scale looting.

PETER CLARKE

Another way of coming at that question I suppose is to ask whether kleptocracy is just really at that far end of the spectrum in crony capitalism. Is that just an extreme form of crony capitalism?

MINXIN PEI

Oh yes. I think democratic societies, there is no possibility of kleptocracy because the probability of seizing large amounts of public owned wealth simply doesn't exist.

PETER CLARKE

Except I'm thinking perhaps in places like the United States, even in Australia, common land, national parks, availability to mining, etcetera. We see a lot of activity here in this democracy in that area.

MINXIN PEI

Yes, but here you have certain checks against the worst form of looting, that you have to have open sets of bidding, you have competition, you have the media, you have the legal system that can constrain the ruling elites or the politicians' capacity to loot.

PETER CLARKE

Minxin, as you look at China and then scan around the rest of the world by way of comparison. What do you perceive as the most successful primary obstacles or constraints upon crony capitalism?

MINXIN PEI

First and most important is a free media because a free media can expose shady deals, can mobilise public opinion, can embarrass politicians and can make them vulnerable. The second one, I would say civil society, that you have to have an army of volunteer monitors that keep a close watch on what politicians do and what the crony capitalists do and third would be legal system where you can seek legal recourse to make it procedurally or formally very difficult for looting to take place.

PETER CLARKE

Is there a clear pattern from your research towards crony capitalism in Leninist style countries with something we're going to talk much more about, the state-owned enterprises moving into private ownership - what is that pattern, do you believe?

MINXIN PEI

The pattern is in this transition period, that is you move from a state dominated economy with state ownership of the most valuable assets to something like a market based economy, in this transitional period, looting by a small number of elites always occurs and that process creates a lot of billionaires at the expense of the larger society.

PETER CLARKE

How do we compare then, places like Russia which saw an emergence of a very intense oligarchy and China? Is it the exposure to free markets, is it something in the

history of the two countries and countries like Poland and the Czech Republic compared to some of the other former Warsaw Pact countries? There seem to be quite clear differences between some of those countries.

MINXIN PEI

Yes, there are two sets of differences we can observe. One is between Russia and China. The two political economies are very different. Russia is a natural resource based economy. China is a diverse manufacturing based economy. Crony capitalism or kleptocracy has much fertile soil in Russia because all you need to do is to seize oil wells, seize mines. So in Russia when you look at the oligarchs, most of them own vast tracts of natural resource wealth.

In China, there are two kinds of entrepreneurs - one you might call [ransack] entrepreneurs who make their fortune largely by acquiring the most valuable commodity in China, that is land. Also there are entrepreneurs who acquire mineral wealth, but there is another class of entrepreneurs that are self-made, much more competitive. They are in manufacturing, they are in service sector. In other words, kleptocracy in China is much less serious than in Russia because of the differences in the two economies.

Then you see a second difference between countries that became democratic in this transitional process and countries that remain dictatorial or autocratic in this process and here the differences are striking. So in countries like Poland, Czech Republic, massive looting is much less serious than in countries that remain under one-party rule or that have flawed democracies, like Russia in the 1990s and that's because as I said, in those transitional countries that first established democratic systems, they had the vital tools to fight looting and kleptocracy. They have free media, they have political competition and they have civil society.

PETER CLARKE

This is Up Close. I'm Peter Clarke in conversation with Dr Minxin Pei, Professor of Government and Director of the Keck Center for International and Strategic Studies at Claremont McKenna College. We're discussing crony capitalism in China and Minxin, let's really look at China more intensely now. In your book, you describe a multilayered corruption market in China. Part of that market is about appointments to government positions, promotions and various protection services in for example court and policing systems via regular bribes. Much of this is intra-government corruption. How does that actually work?

MINXIN PEI

As I try to explain in the book, one of the best ways of understanding corruption is to view corruption as a market, illicit market, in which favours are exchanged for a price and the price is bribery. In the case of China, let me just give you an example because an entrepreneur is not going to bribe somebody for nothing. He always wants to make a profit and in the case of China, the most lucrative sector is the real estate. That's because the state controls the land. The profit of a real estate project comes almost exclusively from the price differential between the land you acquire

and the developed project you sell. So if you can get land for nothing or basically nothing, then your huge profit margin is guaranteed, but how can you get the piece of land is a huge challenge. It requires gaining access to the party secretary who can help you or gaining access to officials who can help you get that piece of land.

So either through social contact or through bribery, you gain that piece of land. So this is how things work. The amount of bribe is very small, probably 10, 20 percent of the ultimate profit, but for the two parties engaged in this transaction, they all mutually benefit because for the private entrepreneur, he's ensured something like 80 percent of profit and for the party secretary or for the government official, he's ensured of 20 percent of profit. So for both of them, it's a very lucrative deal but then of course those peasants who used to till the land, farm the land, they lose out, they lose their livelihood and those people who pay for apartments lose out because they pay much higher prices for apartments.

PETER CLARKE

So that's the relationship, that's the interaction, the corrupt interactions between entrepreneurs, business people and members of government?

MINXIN PEI

Yes.

PETER CLARKE

?in the bureaucracy. Let's stay inside the bureaucracy itself for a moment, inside government. There's a lot of corruption going on there as well if they can see the party secretary earning a nice little pile via these interactions with entrepreneurs, obviously they want to get some of those positions themselves, various people. So how do they go about that intra-government corruption?

MINXIN PEI

Okay, intra-government corruption in China takes two forms. One form which I study in the book is the practice of buying and selling government office. Essentially, if you want this position and I'm the party secretary in the Chinese system, the party secretary can choose appointments. So you come to me, give me a red envelope with 20,000, 30,000 yuan in it. Sometimes you indicate which position you want, sometimes you do not indicate but I know what you are up to and then I give you the position. So this is an illicit market within the government and of course you are not going to give me this bribe for nothing. You know that if I appoint you to that position you are going to use that position to extract bribes from other people. So this business spreads throughout the system.

The second kind of intra-government corruption is that it's very prevalent in courts and regulatory agencies such as environmental protection agencies, that is, a few of us, we are very poorly paid - we think we're poorly paid at least - and we have opportunities to accept bribes from private entrepreneurs or sometimes organised criminals in return for some favours, but we all, we are in this together because you are my colleagues and I protect you, you protect me and we share the spoils from

this kind of activity.

PETER CLARKE

I've heard you describe the size of some of these little networks, the circles, the circles of corruption if you like. I'm fascinated to know firstly how do the various networks overlap with each other, the intra-government corruption and that other sort of corruption you have described, how do they overlap and is there an ideal or optimal size of each operation?

MINXIN PEI

Based on my statistical analysis, I have 260 cases included in the book, the median or what I would call the optimal size is about seven people. When you think about why seven, it makes a lot of sense. If the network is too large, then you dilute potential profit because you have to share this with a lot of people and then you also increase the risks of detection. More people, more likely that some of them will be careless and they get caught, but if you have too few people, then the network will not be powerful enough for mutual protection or to steal bigger pieces of the pie. So seven appears to be the optimal size.

PETER CLARKE

Of course there are networks within networks?

MINXIN PEI

Oh yes, there are overlapping networks. That is, within say a county government, there can be at least two or three networks of corrupt officials operating at the same time because there can be one network affiliated with the party secretary, which typically is the dominant network and then there can be another network affiliated with the county magistrate, the equivalent of the mayor, the second most powerful person, and there can be a network of equals. These are the directors of various government agencies and they think if they are excluded from the party secretary's network or the mayor's network, then they want to form their own network.

So as a result, when party secretary is arrested, investigators often find that in his government, there is multiple networks and if they go after and arrest all of them, then the government basically collapses. So they call this collapse-style corruption.

PETER CLARKE

In your research you don't see as much of this very high level corruption or governmental corruption in the '80s, but come the early '90s, there are shifts in the rules, if we can call them that, surrounding property ownership, control of various properties. There's a lot of ambiguity there and that ambiguity as I understand, reading your book, is what really catalysed some of this corruption.

MINXIN PEI

As I said earlier, that in the 1980s, you did not see collusive corruption. It was petty theft, it was individualised corruption, but since the 1990s, you see a very rapid growth in collusive corruption and I identified a plausible culprit and that is property

rights reform. Because as I said at the beginning, the source of kleptocracy is the availability of publicly owned property that can be stolen. The only way you can make a massive fortune instantly is by grabbing a very valuable piece of property at next to nothing in terms of cost and then flip it and you are an instant billionaire.

PETER CLARKE

By flipping it you mean sell it on?

MINXIN PEI

Sell it on?

PETER CLARKE

At a much higher price.

MINXIN PEI

Yes. In the 1990s, you saw property rights change in China. Most of the most valuable land, valuable assets in China and there are really two - mines and land - that continue to be owned by the government, so nominal state ownership. We all know if the state owns it, nobody really owns it, there are no real owners. There are no individual owners who would watch the property, but at the same time the Chinese government also decentralised who could dispose properties that nobody owned. So all of a sudden you have a situation in which a lot of officials could steal very valuable property and that's the source of crony capitalism.

PETER CLARKE

So when we glimpse and we only get small glimpses of local residents in hutongs which are being demolished and I guess developers moving in, putting up accommodation towers, whatever, that's a little glimpse of this sort of corruption?

MINXIN PEI

Oh yes. This is I think one example, like of crony capitalism at work. For example in Beijing, you have hutongs. These are one storey buildings. The land is really valuable. You kick them out, sometimes use very violent methods and you put up a 40 storey building up there and the profit margin is several fold and that kind of profitability obviously attracts the most powerful and most well-connected people.

PETER CLARKE

And it's deeply unjust, so what sort of mechanisms exist to deal with that injustice? Not much apparently.

MINXIN PEI

Nothing. I think the only mechanism is protest. So if you are this unlucky resident in this hutong whose house is being demolished, you go to court, the court does not accept your complaint.

PETER CLARKE

It's possible the judge is being paid off.

MINXIN PEI

The judge can be paid off, the judge is appointed by the party secretary and the party secretary said, don't take the case. So the only way you can go is to protest, but the police will arrest you if you protest. So essentially you have no recourse.

PETER CLARKE

Minxin, I think we find it hard to understand all those different levels of power. You mentioned power is the key element in corruption earlier, so from the local village to the province to the central government in Beijing, obviously different styles and levels of power. How does all that variation play into corruption?

MINXIN PEI

Well there are five levels of government in China - central, provincial, city, county, township. Only county level officials and above have real power and then it's a very hierarchical system. So when you look at corruption data, you'll find one pattern, that is, the higher positions you have, the more corrupt income you are going to get. The difference is quite huge. If you are a city level official, your corruption income is about 80 percent more than a county level official and if you're a provincial level official, your corruption income is about 40 percent more. So there is this positive correlation between the amount of power you have and the potential for generating illicit income and that accords with the main story of the book, that is, crony capitalism is basically a story about power and money.

PETER CLARKE

We've talked a little about politics and a little about the economics of all this, but I want to go to a cultural dimension, which everyone knows about even in the west and that's guanxi, that ability to build relationships and networks and of course gift giving is a very strong part of the Chinese culture as well and obviously that can be benign a lot of the time, but it's a nice cover, isn't it, to be giving gifts to people, meaning other things. How important is guanxi to corruption?

MINXIN PEI

Guanxi is very important in this story because one of the difficulties a private entrepreneur, or somebody who wants to get a favour from a politician face, is that how do you gain access to that person? You've got to meet that person. You've got to hook that person, make him owe you something and that can only be done through some cultural rituals. One is entertaining, dining. You take somebody to banquets. The second is you try to give that person a gift that is not too much. The first gift demands this fine balance. If you give too much money, then the other person, the recipient would know that he should turn it down because you're up to no good, but if you give just enough that will make the person feel that he can accept it without too many risks.

PETER CLARKE

Nice piece of silk for example.

MINXIN PEI

Silk or a computer or a gift card from a department store. Then after the person accepts your first gift, then the second gift is oftentimes cash, cold cash, then you name your price.

PETER CLARKE

Minxin, early in your book you described the 2015 fall of Zhou Yongkang, formerly one of the highest government officials in China, a member of the Politburo Standing Committee no less and an internal security czar who presumably knew where many of the bodies were buried. He was no tiny fly but certainly a big tiger. What does his case tell us about crony capitalism at the highest levels in China?

MINXIN PEI

Well his case is extreme but not unrepresentative. That is, Mr Zhou worked in three very important sectors in China. He worked in the oil sector, he worked in the local government, Sichuan province, one of the largest in China, and he worked in the internal security sector. In each sector, he managed to use his power to build a very large network of loyalists and in each sector, his loyalists would - and of course Zhou himself - would use their power to steal government property.

Let me give you just two examples. One is that Zhou has two sons. His eldest son became a businessman. Typically in the Chinese system, a senior politician would not own any real business. He would have proxy, typically his children would own the private business, so Zhou's eldest son called Zhou Bin owned an oil trading business and because Zhou was the head of China's largest oil company called CNPC, his son was able to buy a block of oil field from CNPC for nothing and then he quickly resold it for ten times what he paid for. He became a multimillionaire just through one transaction.

Another example also related to Zhou was that he had a fortune teller. He had a personal guru. This is very weird, a mystic, and Zhou thought this person could predict his future. So if somebody could predict your future, you are going to pay a lot. So how was Zhou going to pay for the person's favour, predicting his future? Again, Zhou used his power to ask CNPC to give that person a piece of oil field that was generating a few years ago something like \$100 million a year in profit. So that tells you how one of the most senior officials in China misused his power for the benefit of his son and his personal guru.

PETER CLARKE

Sitting here imagining a board meeting at the China National Petroleum Corporation, his son is flipping a bit of property from that corporation. What happens at board level? Aren't there some sort of constraints, some sort of rules that scrutiny is applied to these transactions?

MINXIN PEI

Well ostensibly they will have independent directors or they have a western like board structure, but in reality, supervision of what the CEO does is minimal. So all of this was happening when they had western style corporate governance.

PETER CLARKE

It's remarkable, isn't it? The other thing you mention of course alluding to the son is the role of family within Chinese culture, returning to the cultural question. It's deep, it's strong and looking after your own is very strong in the Chinese culture, so the existence of princelings and sharing it around within the family and the extended family, that's central to the form of corruption we're talking about?

MINXIN PEI

Oh yes. We should not be surprised that crony capitalism in China is crony capitalism Chinese style and Chinese style in this case is that it's quite tribal, it's quite familial. That is, the benefits you gain by misusing your power will accrue only to members in the family.

PETER CLARKE

What is amazing to us is that from your description and everything we've read, we see China as deeply corrupt. The system is very corrupt. Everyone must know within the government that virtually everyone they're working with is corrupt to some degree, so when you have a big crackdown like the one we've seen when the current president first came to power, are the acts of indictment, scrutiny, investigation, are they all essentially just political acts against rivals?

MINXIN PEI

Well I think they're both. Some of them are directed at those truly corrupt people but not necessarily politically influential people. These are the people that the party genuinely believes should be purged, should be sentenced to long jail terms because they are stealing from the party. Then there are another group of people and these are very powerful politicians that pose a political threat to the existing leaders. People like Zhou Yongkang, so they have to be purged.

PETER CLARKE

Just going sideways a little, looking at climate change and noting that China is positioning itself within renewables and climate change more progressively than perhaps some of the countries in the west and also the extreme pollution in China and the results from that, particularly on health etcetera. Are those two related areas opening up new pathways to crony capitalism in China do you believe?

MINXIN PEI

In terms of pollution, coal is a huge part of it and the coal sector is one of the most corrupt sectors. The land sector, the real estate sector is the most corrupt. So we can plausibly argue that had China had a less corrupt coal sector probably, we are going to have much less serious pollution in China, but the clean energy side is not as infested with crony capitalism as we feared because this is a very competitive sector where the problem is that China has invested way too much in the clean energy sector so their problem is that they have overcapacity and they are not making a decent profit.

PETER CLARKE

Minxin, earlier in our conversation you mentioned the role of free media, the free press in constraining or even eliminating corruption in other countries, not China. Now we know that journalism and social media are still very constrained in China. Propaganda and repression are intense, but breakouts as we've seen do occur, details of official corruption emerge, particularly within social media. How does the media generally, including social media, help or hinder crony capitalism in China today?

MINXIN PEI

Well I think today there's much more control on the media. So actually you can see internal contradiction inside Xi Jinping's anti-corruption campaign. On one side he wants to fight corruption. At the same time, he's cracking down on media. Probably they cancel each other out, but for a while, I think under Hu Jintao, under Jiang Zemin, even though there was control over the media, the media was freer and the media did play a substantial role in exposing corruption, in constraining corrupt activities.

PETER CLARKE

I must ask you before we move onto your projection of where China is going from now, the very nature of authoritarianism, like Russia, China has a long, deep history of autocracy and authoritarianism. I guess it remains very clearly woven into Chinese culture and politics today. So obviously that authoritarianism including this crackdown, including this current president who is probably the most authoritarian president China has had for a while, that authoritarianism as we see it now in China is having a mixed effect on crony capitalism?

MINXIN PEI

Well I think what we witness in China today is the return of some form of very hard authoritarian rule and the question is can hard authoritarian rule constrain corruption? Historical experience you would say can't. When you look at what's going on in China, perhaps you can make two conclusions. One is that hard authoritarian rule simply drives corruption deeper underground. Corruption takes place, except those who participate in corrupt activities take greater care in disguising their activities. Another observation, you would say that it merely suspends certain forms of corruption. In other words it does not destroy the market for corruption because the fundamental sources of corruption in China remain basically intact. That is, that state controls right now 40 percent of GDP, huge amounts of wealth and as long as that remains the case, the ruling elites will have the incentive to gain a piece of the pie.

PETER CLARKE

I'm Peter Clarke and today on Up Close we're discussing collusion between the political and business elites in China with Dr Minxin Pei, Professor of Government and Director of the Keck Center at Claremont McKenna College in California. The subtitle of your book, Minxin, is The Dynamics of Regime Decay. It's a strong word, decay. It's a big call. How do you justify putting that in the subtitle?

MINXIN PEI

Well when you look at the dynamics described in the book, you reach three conclusions. One is that public authority or political power in contemporary China has been privatised by a relatively small group of elites. In other words, the state no longer serves public purpose and that's a form of decay. The second form of decay is that there is clearly a process of bad money driving out good money because those who engage in corruption, especially collusive corruption, has huge advantage over their colleagues. So over time the system will be populated by these people. So the system will be really corrupt.

Third is that you simply cannot imagine that this system can meet the requirement of sustained economic growth because state owned assets will be looted, inequality will worsen. If we know anything about those who loot state assets, it's that they could take their money out of the country so there will be less capital for investment. So over time, the party will face greater difficulties in sustaining its economic performance and that's the source of the party's legitimacy.

PETER CLARKE

Earlier you described for us these quite small circles of corruption, the networks, obviously with feelers going out in all directions but relatively small. That seems to militate against a sense of unity within the Chinese communist party - competitive rivals and competitive networks. Is that part of the decay you're talking about?

MINXIN PEI

Oh yes. Rivalry is not only unavoidable but rivalry can be vicious. What we are seeing now is that a form of life and death struggle has returned to China. That is, if I want to destroy my political opponents, I can use corruption as a big club, a big weapon and that makes the ruling elites insecure. If they are insecure, they are going to fight more viciously and if they fight more viciously, then this is a regime that does not have internal unity.

PETER CLARKE

My informants tell me that once upon a time in Chongqing, not many years ago, before the current presidency, there would be flotillas of black limousines outside the most popular restaurants around lunchtime for the banquets, the long lunches, etcetera. My informants tell me they're not as apparent these days. Has the crackdown been effective, or is it to some extent just a period of resting so crony capitalism can re-emerge after the end of this regime?

MINXIN PEI

The answer is that it's yes and no. It's effective in the sense that it has suppressed, at least temporarily, certain forms of corruption that are ostentatious, that are high risk, high profile, but it's ineffective in the sense that it merely drives corruption into other forms, more well concealed activities.

PETER CLARKE

Now we know that governance in China is notoriously opaque. In fact a real

challenge for you as a researcher, isn't it, to actually delve into and get the detail and understand the actuality of a lot of the dynamics. Your research approach involves, amongst other things, analysing court cases, etcetera, looking at the prosecution details I guess, but aren't they within the Chinese system also just carefully crafted propaganda? The details of cases that you have been looking at, are they reliable?

MINXIN PEI

This is a question I get asked all the time and my answer is that we should all approach them with a healthy degree of scepticism, but the alternative for not using such data is that you don't study. So if you want to be a purist, then you don't approach this issue at all because you simply don't have any materials. So you can have a more reasonable approach, that is you go in, you know what materials you have and you try to go through them. There are two aspects of this kind of evidence. One is the quantitative aspect which is more suspect, because of the selection bias. The other is the qualitative aspect which is much more reliable because essentially describe behaviour. They have stories, they don't give you the numbers and if you look at my work, it gives you both.

The good thing about the book is that the qualitative information, the quantitative data, they actually support each other.

PETER CLARKE

So just to clarify that, the quantitative data is about the number?

MINXIN PEI

The number, yes.

PETER CLARKE

The number of people and perhaps some of the?

MINXIN PEI

Yeah, the amount of?

PETER CLARKE

?money involved.

MINXIN PEI

?money involved, how long it takes to be discovered. These are all quantitative data but the qualitative data is that if they want to buy a piece of land at a low price, how do they go about doing it? How was their misconduct uncovered? These are all qualitative information.

PETER CLARKE

How do you see the arc of history now going with China? When many commentators saw hyper-capitalism emerge in China or some sort of liberal capitalism emerge in China, I guess many assumed that democracy was not far behind. Clearly your book is written within a frame of democratic longing. We haven't had much of a sniff of it in

China really, have we? How do you see things playing out from here, presuming that this decay that you're describing flowing from corruption continues?

MINXIN PEI

History never moves in a linear fashion. As far as China's future is concerned, my first response is nobody knows. Second is based on historical experience, China today has most of the favourable characteristics for establishing non-authoritarian and more democratic system. How that is going to play out, we frankly do not know but then you look at the structural conditions which are per capita income, urbanisation, literacy. China, based on those numbers, it is really very difficult to see that a communist party can be there in 20 years because so far, no one party rule has achieved that kind of accomplishment.

PETER CLARKE

But if we look at China and we look at Russia as well?

MINXIN PEI

Yes.

PETER CLARKE

?with those long deep histories of autocracy and very little experience apart from those short periods in their history of so-called democracy, how is democracy going to actually emerge within that context?

MINXIN PEI

Again, if you use Russia as an example and I think in the future probably what happens to China will look very much like what happened to the former Soviet Union. That is, after a while, this system will find itself in deep stagnation and then some reformer or a new group of leaders will be entrusted by the party with the task of reviving the party. They will run out of ideas and options because they've tried crony capitalism, they've tried authoritarianism and there's only one possible solution left, that's liberal politics. They will have to embrace this. If that happens, probably you're going to see a very rapid breakdown of the old system.

PETER CLARKE

And a lot of learning going on about how democracy works.

MINXIN PEI

Oh yes. I mean I think that the breakdown of authoritarian system will give you an easy pass to democracy. Most countries don't get it right the first time, but the second time they get it right.

PETER CLARKE

It's a fascinating topic and a fascinating area and might I say, important to all of us. Thank you very much for being with us on Up Close today.

MINXIN PEI

Thank you.

PETER CLARKE

Our guest today, Dr Minxin Pei, Professor of Government and Director of the Keck Center for International and Strategic Studies at Claremont McKenna College in the United States. Professor Pei's book, *China's Crony Capitalism: The Dynamics of Regime Decay* was published in late 2016 by Harvard University Press. You'll find more information about Dr Pei's research and writing and other relevant links on the Up Close website.

Up Close is a production of the University of Melbourne, Australia. This episode was recorded on 23 March 2017. It was produced by Kelvin Param with audio engineering by Gavin Nebauer. I'm Peter Clarke. Thanks for listening and I do hope you can join us again soon. Bye for now.

VOICEOVER

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