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An Analysis Of Corruption In China: The Guanxi Network Of Chinese High Level Officials And Governors

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**AN ANALYSIS OF CORRUPTION IN CHINA: THE *GUANXI* NETWORK OF
CHINESE HIGH LEVEL OFFICIALS AND GOVERNORS**

Xiangru YIN

MAY 2017

A Master's Paper

**Submitted to the faculty of Clark University, Worcester,
Massachusetts, in partial fulfillment of the requirements for the degree of Master of Arts
in the Department of International Development, Community and Environment**

And accepted on the recommendation of

Professor Jude Fernando, First Reader

Professor Sasha Adkins, Second Reader

ABSTRACT

AN ANALYSIS OF CORRUPTION IN CHINA: THE *GUANXI* NETWORK OF CHINESE HIGH LEVEL OFFICIALS AND GOVERNORS

Xiangru YIN

Corruption is considered as one of the biggest hurdles faced by the Chinese government, as it has the effect of thwarting economic growth by perpetuating poverty and income inequality, and discouraging foreign investments into the country. However, unlike other countries, China is a special case because of the Chinese concept of *guanxi* that highlights the importance of maintaining relationships and networks. This system helps to better understand corruption in the Chinese context. The rules of *guanxi* are deeply embedded in Chinese society, making it very difficult to distinguish a legitimate *guanxi* practice from corruption. By understanding this system, it helps in locating ways how *guanxi* leads to corruption.

Positivism is used to determine the seriousness of corruption in China and how it is related to the practice *guanxi*. Moreover, a quantitative research approach is used to offer a great level of depth to the issue on hand. This study uses scientific research methodology by making an observation and empirical evidences about the social behavior in China, through the critical analysis of a segment of a published body of knowledge such as corruption cases from publicly available data and to determine the role *guanxi* at each case.

Based on the analysis conducted, it was found that *guanxi* is considered as a moral norm in the country that dramatically influences what constitutes a suitable social behavior within the Chinese culture. *Guanxi* also provides the standards and rules on the establishment, continuance,

and use of relationships and connections. More specifically, *guanxi* has profound influence on almost all social interactions in China, whether it is in the government or in business. As such, it blurs the line between normal *guanxi* relationships and corrupt practices, making corruption an intrinsic characteristic of the Chinese government, as well as the Chinese society. Therefore, it is of great significance to talk about the relationship between *guanxi* network and corruption in that *guanxi* is a part of Chinese culture but distorted recently.

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1. INTRODUCTION

1.1 Background of the Study

Corruption is a long-festering blight on China's reputation, especially in Western countries. Based on a definition given by Seligson (2002), corruption can be simply defined as the abuse of public office for personal gains. This undermines both the legitimacy of the government and systems, and the entire economy (Seligson, 2002; Zhu & Zhang, 2016). Corruption in China has become so rampant that high level government officials learned to trade favors for their financial gain (Zhang, 2014). In fact, in China, the massive corruption in various government offices and departments has urged Chinese President Xi Jinping to launch a corruption crackdown shortly after he took office during the late 2012. After four years, tens of thousands of Chinese government officials, both in high and low ranks, have been removed from office, while others are jailed, sentenced or even executed.

One of the reasons for the pervasiveness of corruption in China was attributed to the abuse on using the Chinese concept of "*guanxi*", which is roughly equivalent to "relationships", "connections" or "networks". More specifically, *guanxi* can be defined as a wide system of influential relationships and mutually beneficial social networks that facilitate business dealings and other transactions (Hope, 2014). This system is originated from the Chinese social philosophy of Confucianism.

Guanxi is formed through family ties, other familiar connections such as friends, peers, colleagues, or former classmates, and even between strangers. While through family ties is the most common way to develop connections, *guanxi* can still be developed by means of finding or developing a basis of familiarity that builds a way for building connections or relationships,

either through introductions by friends, school or office connections, similarities of origins, hobbies, and the like.

Another related concept of *guanxi* that is embodied within the Chinese cultural practices of reciprocal indebtedness includes ganqing, wu-lun, yi-ren and ren, and the idea of face. Ganqing is translated as “feeling” (Zhou et. al., 2015). This refers to the sense of the relationship surrounding two people or two groups. The wu-lun concept refers to the idea of a long-term relationship established between a business and its clients. Yi-ren and ren on the other hand refers to the idea that supports empathy and reciprocity while the idea of “face” refers to the idea of preserving prestige and dignity in the social concept.

In other countries in Asia like in Arab nations, *guanxi* can be termed as “wasata,” which refers to nepotism or popularly called as the “who you know” relationship (Lall, 2017). It can be termed as favoritism because of preferring someone known to the person in authority rather than preferring someone by merit. In Philippines, the “who you know” relationship is also prevalent not only in the social context but also in the political context including business management. In these countries where the Chinese-termed *guanxi* exist, corruption exists. The Transparency International reports a data showing the rank of five Arab countries from the top ten most corrupt nations from the data released by CPI in 2013. These countries are Syria, Iraq, Libya, Somalia, and Sudan (Aljazeera, 2013). Philippines on the other hand is ranked as “the 101 least corrupt nation out of 175 countries, according to the 2016 Corruption Perceptions Index reported by Transparency International” (Trading Economics, 2016).

Guanxi is very important in China because it allows people to use them to benefit themselves or ask for favors. Through a series of interactions and exchanges of favors and gifts,

an influential *guanxi* network is developed over time, which forms a complex network of reciprocal indebtedness, duties and obligations. Both parties understand that they have the duty to give favors whenever the other party asks for it if they want to maintain their connections. As such, *guanxi* is considered as one of the most powerful forces that shaped Chinese culture, which in turn dramatically influences China's political and business landscape. In fact, according to Han (2016), *guanxi* is deemed a vital source of power for individuals in the Confucian traditional cultural society in China. As such, *guanxi* is innately prone to being used for corrupt practices.

While *guanxi* has long been a norm in China and a lot of Chinese business leaders assert that it is almost impossible to become successful in China without it, Westerners and other people outside China think of it as a negative or potentially corrupt practice (BBC News, 2014). As such, this study aims to investigate the interrelation between the *Guanxi* network of Chinese high level government officials and governors and the prevalence of corruption in China. It also tries to figure out how the countries mentioned above, which exercise the similar concept of *guanxi* handle corruption.

2. LITERATURE REVIEW

This section tackles the various theories on corruption and their application. More specifically, this section is divided into four subsections, namely: the basic corruption theories, economic explanation of corruption, sociological explanation of corruption, and finally, a broad discussion of *guanxi*.

2.1 Basic Corruption Theories

This subsection discusses the major corruption theories that are available in literature to explain the prevalence of corruption in China in later subsections. Particularly, this subsection is subdivided into the discussion of the economic explanation of corruption and another discussion of sociological explanation of corruption.

Corruption in China can pertain to graft, bribery, embezzlement, misappropriation of public funds, unauthorized appropriation of government properties, owning substantial amount of property with questionable sources, malpractices while in the performance of duties, and negligence of duties, among others (Zhu, 2016). During the 1980s, official speculation was the most popular and prevalent type of corruption in China, as people took advantage of the dual-price system between the high prices of raw materials in the market and the low prices set by the government (Zhu, 2016). Then during the 1990s, other forms of corrupt practices suddenly emerged when the government decided to liberalize the prices and undertake banking, taxation and housing reforms (Gong, 1997). Gong & Wu (2012) also found that government contracting and procurement during outsourcing are also beleaguered with numerous occurrences of corruption.

2.2 Economic Explanation of Corruption

According to Deng (n.d.), the economic explanation on corruption has been the predominant paradigm in the literature. More particularly, in economics, one way to explain the rising incidence of corruption is by using the concept of game theory. More specifically, Nagano (2009) pointed out that corruption could be considered as a case of Prisoner's Dilemma in application. Individuals act and react to maximize their benefits over their costs.

Accordingly, aside from putting someone in a disadvantaged position, avoiding corrupt practices can even result to inefficiencies in some cases. Because of this, people choose to engage in corruption. For instance, a person, who is the most capable and deserving entrepreneur in town, needs to bribe to get a limited business license, so that it will not be given to other less deserving people. As such, corruption becomes difficult to avoid since some people find it logical to bribe or be bribed. To win the game, an individual needs to select the best outcome that he thinks others will choose. Since it involves people acting and reacting to each other's actions, in an effort to choose the best outcome for their personal gains, corruption is seen as a form of Prisoner's Dilemma – an individual's action can affect other individual's actions and welfare. In other words, people behave rationally to achieve individual gains based on their personal opinions or speculations on how other people will behave, resulting to substantial costs to the entire society.

Similarly, the concept of "Rational Irrationality" can also be applied in the analysis of the prevalence of corruption in China (Nagano, 2009). People got involved in corrupt practices not because of greed. Instead, they commit such practices because they are just acting rationally, given the situation. Accordingly, the root cause of corruption in China is "rational irrationality", which pertains to a behavior that is perfectly reasonable when seen on an individual level but can actually be calamitous when analyzed in an aggregate level.

One assumption of the economic perspective on corruption is that people make decisions in a perfectly competitive market. However recently, other economic theories of bureaucratic corruption also take into consideration the impact of informational asymmetry and uncertainties about costs (Jain, 2011). Particularly, informational asymmetry is associated with knowing the

government officials who are corrupt and which will engage in corrupt practices while costs uncertainties have something to do with the amount of penalties if detected and the probabilities of detection (Jain, 2011).

2.3 Sociological Explanation of Corruption

Another way to explain corruption is by means of using the economic sociology or the new economic sociology, which asserts that economic actions cannot be decided independent of other external forces and that, actions are actually deeply entrenched in complex social relations and influential networks.

More specifically, Granovetter's Embeddedness Approach to corruption argue that "social relations are fundamental to market processes" (Granovetter, 2005). This is because the economic actors in the market are socially rooted in the structures of social relations (Granovetter, 2005). In other words, both the prevailing social structure and the social actions of individuals have significant impact on their economic actions. As such, institutions, network relations, and power have critical implications on an individual's economic behavior.

In addition, Granovetter (2005) also contend that in analyzing an individual's economic actions, the two characteristics of social relationships, namely the horizontal and the vertical social relationships, should be examined. Cooperation and trust between the economic actors are embedded in their horizontal social relationships while the compliance and power differentials between the actors are contained in their vertical relationships.

According to Jie (1997), the embeddedness approach to corruption should also include the analysis of non-structural and non-social factors such as macroeconomic and cultural variables.

The importance of social networks is highlighted in China since the country's larger cultural, historical, and political context makes it an inevitable requirement to succeed either politically or economically. In fact, David (2012) argues that corruption can be a part of culture, and the way of life in some countries.

2.4 Guanxi Explained

The practice of *guanxi* starts with establishing a relationship, which can be based on family ties, other familiar connections such as friends, peers, colleagues, or former classmates, or even between strangers (Harding, 2014). Aside from family ties, *guanxi* is established by means of finding or developing a basis of familiarity that builds a way for building connections or relationships, either through introductions by friends, school or office connections, similarities of origins, hobbies, and the like. According to Tong (2014), the concept of *guanxi* allows most Chinese to merge their public and private life and to use their network of personal connections in their public business transactions.

Once a basis is already formed, *guanxi* is gradually developed and sustained through regular social meetings and activities such as dinners and other get-togethers and through a continuous cycle of mutual gift giving (Harding, 2014). Through a series of interactions and exchanges of favors and gifts, a good *guanxi* relationship is developed over time, which forms a complex network of reciprocal indebtedness, duties and obligations. In order to preserve the *guanxi* relationship over a long period of time, both parties recognize that they have the obligation to fulfill their duties to each other whenever arises.

Some of the most important elements of a good *guanxi* relationship include continuity of reciprocal exchanges and that said exchanges should be of great importance to the recipient. As such, the recipient of gift or favor develops, not just a sense of gratitude, but an obligation to reciprocate the gift or favor at a later period when it is needed or when the giver asks for it. Thus, a failure of any of the parties to perform his/her obligation and to follow *guanxi*'s rule of reciprocity creates negative effect on the reputation and *guanxi* of the violator (Harding, 2014).

According to Han (2016), one of the major reasons for the popularity of *guanxi* in China is information asymmetry, which is a very serious problem in the country. Because of hidden rules that are blindly accepted by the society, high level government officials can easily be tempted to engage in corruption because their illegal activities cannot be easily traced. Because information is not transparent in China, people would usually resort to *guanxi* to conduct their business transactions with any government offices. Therefore, it is important that the government should regularly release the necessary information to the people.

Business management literature and social network heavily discuss the concept and impact of *guanxi* to their successes but not as much as its connection to corruption within Chinese high level officials and governors. This results to an issue of how *guanxi* from the social norms triggers the formation of corruption in the political context.

3. Research Question, aim and objectives, significance, and limitations

3.1 Research question

This study is guided with the following primary questions:

- a. What role does the *Guanxi* network of Chinese high level officials and governors play in the massive corruption in China?
- b. How can the government eliminate corruption problems in *Guanxi* networks of Chinese high level officials and governors?
- c. What general lessons can we learn from this case study to combat corruption in China?

3.2 Research Aim and Objectives

The main purpose of this study is to determine whether the Chinese concept of ‘*guanxi*’ perpetuated the massive corruption in Chinese government offices. More specifically, the prevalence of corruption is determined and the role that the *guanxi* network of Chinese high ranking government officials plays in various business dealings and transactions involving the government. In addition, this study also aims to provide some viable recommendations on how to eradicate the immense corruption problems within various government offices and units basing on the experiences of other highly successful Asian nations.

3.3 Significance of the Study

Investigating how corruption is deeply rooted in China’s government and main reasons for its prevalence will be of great help for the current administration and the public officials to effectively tackle the said problem and assess the success of its ongoing anti-corruption drive in various government offices and departments.

Moreover, determining the role that the Chinese concept of *guanxi* has played in perpetuating massive corruption can also help the current administration to pinpoint abuses on

guanxi. As such, various effective ways can be developed and introduced on how to prevent abuses on *guanxi* in future business dealings and government transactions.

3.4 Feasibility of the Study

The feasibility of this study can be through its role as a secondary data and numerous studies in literature that are focused on the subject matter are already published online. Particularly, this study employs quantitative research approach to investigate the issue and data on the topic are collected from various secondary sources, including government offices and websites, international organizations, private firms, and various studies that are available in literature. This includes Chinafile, The Daily News of China Procuratorate, CORRUPTION PERCEPTIONS INDEX (CPI) and more others. Chinafile is an online magazine published by the Center on U.S.-China Relations at Asia Society. It aims to publish, showcase and report various information including commentary on China. This online publication sometimes describes corrupt officials as tigers and flies, which are being hunted by the anti-corruption campaign. The site even establishes the so called “Catching Tigers and Flies” database to track and document each phase of the campaign as well as the links of those who are caught involve in the issue (Forsythe, 2016). On the part of The Daily News of China Procuratorate, this information are mostly published on the China Daily site. They report investigations made by Supreme People's Procuratorate (SPP) about several issues including bribery or corruption. Also, the Corruption Perception Index published by Transparency International (TI) shows annual rankings of countries when it comes to corruption. Moreover, there are also sufficient information that can be gathered electronically from various previous studies, more specifically from different journals, reports, and databases. This study primary uses studies such as those

mentioned above that focus their discussions of corruption in China and/or the importance of *guanxi* in Chinese society, businesses, and politics, among others.

3.5 Scope and Limitations

This study covers various data from both the government and private institutions and previous research studies, in an attempt to assess the pervasiveness of corruption in China, and the role that the *guanxi* network of Chinese high ranking officials played on perpetuating corruption in various government offices and agencies.

The major limitations of this study include the following: (a) the data used are only limited to those that are publicly and electronically published; (b) the importance and influence of *guanxi* network may not be fully taken into account; and, (c) this study may cover only a limited part of the real corruption situation in China. This is because corruption issues have a wide-ranging impact and involve many problems. As such, this study may not be comprehensive. Another important limitation of this study has something to do with the researcher's agency on data construction and interpretations. As this employs the positivism approach and a quantitative research method, the quality of the research is heavily dependent on the skills and knowledge of the researcher. Moreover, the research method used also makes it very difficult to separate the researcher's own subjectivity in analyzing and interpreting the gathered information.

Apart from what has mentioned above, it is essential to bear in mind that the accessible official resources including newspapers, mass medias and other forms of information channels are under control of the central government.

4. METHODOLOGY

This section is divided into several subsections, including a discussion of the philosophical basis and research approach used in this study, the research design and instrument used, the data collection and analysis, and the trustworthiness of the method employed in the conduct of this research.

4.1 Philosophical Consideration and Research Approach

One of the most critical parts of conducting and choosing a research method is deciding on the most appropriate research approach and ontology philosophical consideration. The philosophical consideration, also known as research paradigm, serves as a guideline for conducting the research. The two most widely used research paradigms are interpretivism/constructivism and positivism. Accordingly, interpretivism is a philosophical approach that supports the notion that reality cannot be known directly and can only be ascertained by convention or consensus. On the other hand, positivism pertains to a philosophical approach that supports the notion that reality is directly knowable through actual experience. For the purpose of this research, positivism is used in this study, as it is the most appropriate basis of research in sociology since corruption is a social problem while *guanxi* is a social norm. With this reason, the study uses only methods of natural science based on observational and empirical evidence.

4.2 Research Design

The research design is very crucial to the accuracy and effectiveness of the findings because it is considered as the blueprint of the whole study that outlines the research methods

and techniques employed in data collection, evaluation, and analysis of the data and information gathered (Creswell, 2015).

For the purpose of this study, a correlational research design is used. It is a quantitative research method used in positivism research under sociology. This is deemed the best research approach because it effectively explains and evaluates sets of data and information on the state of corruption in China and the importance of *guanxi* networks of high level government officials and governors in the country.

4.3 Research Instrument

This paper takes a quantitative research methodology, through a critical analysis, investigation and comparison of gathered data and information. In addition, the researcher uses research instruments such as published surveys, collection, sampling, and data analysis. They are books including textbooks, year books, reference books, and encyclopedia; journals including published annual, quarterly, and monthly peer-reviewed articles; research thesis and dissertations; newspapers and magazines; reports including seminar reports and government-commissioned reports; and audios and video tapes.

Thus, the correlational research design and research instruments will help the researcher find out the reasons and explain why corruption and *guanxi* are linked to each other. The research instruments such as statistical data will help the researcher identify the correlation of the *guanxi* system and corruption in the Chinese social and political context. This will be compared to other countries where corruption is prevalent to help predict or discover the intensity of

corruption equivalent of the exercise of *guanxi*. The two variables will be corruption and the *guanxi* concept.

4.4 Data Collection and Analysis

This study primarily conducts several researches to gather data and other pertinent information about the subject matter. Through quantitative research approach, quantitative information is gathered by way of acquiring statistical data conducted in several years, and information or data published by related studies. This data collection method is deemed adequate to address the research questions mentioned earlier because of the presence of numerous research, published data and reports regarding corruption in China and the Chinese concept of *guanxi*. Nevertheless, censorship of data being collected from the resources could limit how much is published and bias the result of the study.

More specifically, the state of corruption in China is assessed through the lens of various researches and studies conducted in recent years. Moreover, official figures and reports regarding corruption in China were collected from official Chinese government websites, such as the Supreme People's Court of China, the National Bureau of Corruption Prevention, and the Supreme People's Procuratorate, from various international organizations such as the United Nations, and news media. Government data sometimes contains bias information just to show transparency. However, the researcher uses "methodology for retroactively detecting bias or error" from the data gathered from the government (Emerick, 2015). The researcher critiques the validity and possibility of the data to come up an actionable knowledge. After proving its possibility and value, the researcher freely use it in the study.

In addition to the various data gathered, the researcher uses case study method to examine the specific applications *guanxi* and corruption in the Chinese social and political context. This can be done by analyzing the specific case of Zhou Yongkang's relationship in Sichuan. Zhou Yongkang is a decorated politician through his nine years of service. However, he is convicted with series of corruption cases. When he was arrested, all his allies and protectors in Sichuan also followed him in jail including his son.

Moreover, this study uses information from English language sources, with a combination of scholarly journals, academic papers, government reports, online databases, and news articles that provided anecdotal evidence and historical context on corruption in China and the *guanxi* network of Chinese high level government officials in the country. The authors of the references used in this study also cited the same quality sources and to validate their studies. This is to ensure the accuracy of information gathered as reports in Chinese, especially those that are officially released by the government may be distorted.

4.5 Trustworthiness of the Method

Since the main research method used in this study is document review, the researcher tries his best to guarantee objectivity and lessen the subjectivity of the research findings. Accordingly, research is considered objective if future researchers can replicate it and arrive at results that are almost the same as the findings of this study, when the same set of information and methods are used (Rasila, 2007). By carefully selecting accurate information and scholarly articles, the conclusions of this study are deemed valid, correct, and trustworthy. This can be proven by some authors of the references of this study such as Tao Gong, Jong-Sung and Khagram, and more

others. In addition, other researchers can verify the findings of this study as the information used are mostly publicly available.

5. ANALYSIS

5.1 Corruption in China

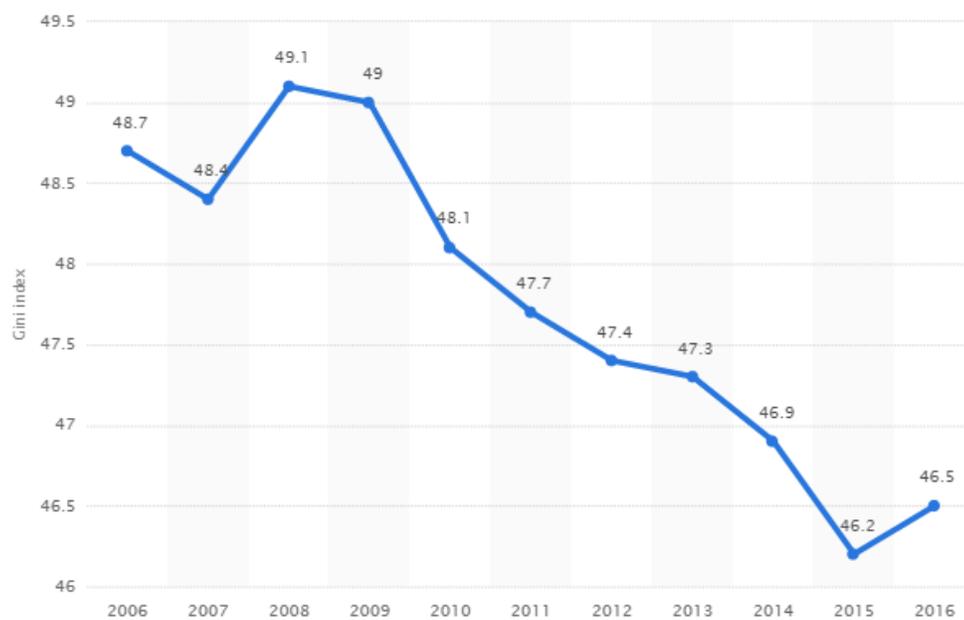
According to Nagano (2009), when corruption becomes systemic, just like in the case of China, individuals find themselves at a disadvantaged when they try to follow anti-corruption laws. In fact, in the past decades, corruption has already become part of social norms in China, making some illicit corrupt practices acceptable behavior in the government.

In fact, according to Harding (2014), China's regulatory and bureaucratic system is very taxing and burdensome, which creates strong opportunity and an incentive to engage in corruption. In fact, corruption becomes more pervasive when the government assumes a major role in the economy through the control and ownership of various assets and resources that are needed to conduct business activities and facilitate profitable undertakings (Huang, 2015). This is exactly the case of China, where the government heavily intervenes in economic and business processes and owns many large enterprises and controls many important industries. According to the Ease of Doing Business Index published by the World Bank (2016), China ranked at number 80 among the more than 180 countries included in the 2016 survey, which implies that the country's regulatory environment remains relatively burdensome and not very conducive to business.

5.1.1 Corruption and Income inequality

It is assumed that the prevalence of corruption in China can also be associated with the massive income inequality in the country. This can be determined, proven or not proven by interpreting the data below:

GINI COEFICIENT IN CHINA: Inequality of income distribution in China from 2005-2016



Source: Statista.com (2016)

Based on the data presented above, the year 2008 was the year income inequality in China was the highest by having the Gini Index of 49.1 while the year 2015 was the lowest by gaining the Gini Index of 46.2.

To check the association of corruption and income equality in China stated to go over another data presented by the Transparency International. In the year 2008, China is ranked as

number 72 by gaining the score of 36. In 2009, China is ranked as number 79 with the score of 3.6. In 2010, it is ranked as number 78 with a score of 3.5. In the year 2011, China is ranked as number 75 with a score of 3.6. In 2012, China gained 39 score. In 2013, China gained 40 score. In 2014, the country is ranked as number 100/175 and gaining the score of 36. In 2015, the country is ranked as number 83/168 and gaining the score of 37. Based on the Transparency International, a score closed to zero is highly corrupt while a score close to 9.0 or 90 is clean from corruption.

In matching the Gini Index versus Corruption Perception, it is noticeable that income inequality is not directly related with corruption. The table below shows the relationship between GI and CPI of China.

The Relationship Between GI and CPI in China Table

Year	GI Score	CPI Score
2008	49.1	36
2009	49	36
2010	48.1	35
2011	47.7	36
2012	47.4	39
2013	47.3	40
2014	46.9	36
2015	46.2	37

The table shows that China's highest GI was on 2008 but its lowest CPI was on 2010. Also, the lowest GI was on 2015 but the highest CPI was on 2013. As a result, corruption has nothing to do with income inequality in China. Therefore, using the GI and CPI of the country to check if corruption has something to do with income inequality shows that it has nothing to do with it.

However, China has greater number of billionaires as compared to the United States. Despite this, there remain around 82 million Chinese people who live on less than US\$1 per day. (Deng, n.d.). Gupta, Davoodi, & Alonso-Terme (1998) showed that rising corruption causes poverty and income inequality to rise by means of reducing the country's economic growth, the effectiveness and level of spending for the provision of social services, human capital formation, by preserving the unequal access to education and ownership of economic assets.

By analyzing the article presented by (Deng, n.d.). Gupta, Davoodi, & Alonso-Terme (1998), the researcher finds out that corruption in the political context could really affect income inequality but not directly to the poor. The researcher argues that income inequality under the corruption in the political context happens more directly to the corrupt people than the poor people. This can be proven by the logical argument and empirical evidence presented by (Deng, n.d.). Gupta, Davoodi, & Alonso-Terme (1998) wherein tax evasion, another form of corruption and other misuses of government fund could cause income inequality to the poor by impacting first the economic growth. Instead of using the fund to combat problems such as unequal access to education and providing economic assets to the citizens of the country living below the line of poverty, it is being spent illegally to satiate the personal interest of few people. As a result, the poor people remain uneducated making them hard to acquire decent job. Others have low sources of capital to support their economic activities and as a result, their income remains very

low. On the part of the ones who rob the government fund, especially those who are positioned as government officials, they will use the money directly as an additional to their wealth. They can make it as their additional capital investment or to purchase other assets for their own good. In return, they will be able to gain higher income, which even make them richer.

By investigating the empirical evidence presented by (Deng, n.d.). Gupta, Davoodi, & Alonso-Terme (1998), income inequality caused by corruption in the political context is directly applied to few people or those who exercise corruption especially in the higher level but indirectly to the larger part of population of the country. Since the rich people in China is few compared to its large population, Jong-Sung & Khagram (2005) argued that the rich usually have the greater opportunity and motivation to engage into corrupt practices while the poor are more vulnerable to become victims of extortion and other similar practices. This can be likened in the case of China, wherein the high-ranking officials and governors have greater opportunity to get involved in corruption while the lower level employees have less ability to monitor them and hold them accountable for their actions. Therefore, the analysis of the quantitative information or data presented above might be also saying the same by showing that corruption and income inequality is not directly correlated with each other. Corruption in the higher levels are only exercised by few wealthy and powerful people that directly affect income inequality compared to victim of corruption, which is the larger part of population which are indirectly affected by the income inequality caused by corruption.

5.1.2 Corruption and Economic Growth

Further, the most common forms of corruption in China's economically active coastal areas include smuggling, property speculation, and stock market violations and malpractices

(Zhu, 2016). On the other hand, the most prevalent forms of corrupt practices in China's less developed areas include financial fraud, tax evasion, and the buying and selling of official positions.

Also, corruption is adversely affecting China's economic growth and development. By using Robert Barro's model, D'Amico (2015) showed that corruption has a strong adverse effect on China's economic growth and Chinese provinces can benefit from implementing programs that eliminate corruption. Moreover, based on recent figures, corruption has an estimated economic impact of about 3% to 5% of China's gross domestic product (GDP) in 2015 (Deng, n.d.). This was roughly equivalent to around US\$341.5 billion to US\$569 billion. Since the actors of the corruption cannot be identified directly or immediately unless they are caught, the commonly believed people exercising this practice include politicians from the low or high levels, business people, and few other people within the society who are accepting bribery. According to Gong & Wu (2012), Chinese high-level government officials represented around 64 percent of the primary actors among publicly reported corruption incidents in China. Most of the time, it is the government fund that the corrupt people are robbing out. They can do it by robbing some portion of the sources of the government fund. For example, instead of submitting to the government all its collected income, corrupt people will distort any of its financial report and steal some portion of the money. The same thing can be done during the spending or allocation of the government fund. Corrupt people will again distort the budget and apportion some part of the money, which will go in their pockets. If the misappropriation of government fund caused by corruption continues it makes the corrupt people richer while impair the economic growth of the country. Unfortunately, Zhu (2016) supports the increasing corruption in China by stating that one of the hints of increasing corruption in the country is the prevalence of

collective corruption in the government, with wide and complex network of perpetrators from various departments, units, and localities, including private companies that can be likened to a large syndicate. He also added that these immense corruptions usually involve high-level government officials.

The study conducted by Zhu (2016) confirmed that there is a steady rise in the number of high level government officials charged with various kinds of corrupt practices. Accordingly, from just a periodical involvement of senior government officials in corruption cases during the period 1986 to 1994, the number of corrupt high level officials started to increase in 1995. After several years, their number had already reached double digits (Zhu, 2016). Then since 2013, hundreds of government officials were investigated for their alleged involvement in corruption. The increase in the number of corruption cases investigated can be attributed to President Xi Jinping's massive anti-corruption campaign since he came to power in late 2012.

Through the empirical evidences presented above, it is predictable that corruption directly impair economic growth. The funds that is apportioned for the development of the country such as construction and improvement of roads and bridges in the rural and urban areas, construction of building for the public to conduct their economic activities, construction and improvement of school building, increasing the budget that supports the education of the youth and more others will be lessened. As a result, the lives of the common people who composed the larger portion of the population of the country that mostly rely to the support of the government will be at stake. The poor remain poor or hardly alleviate themselves from poverty because of lack of assistance. Therefore, the researcher argues that it is the impaired economic growth caused by corruption that impoverished people especially those from below of the poverty line.

5.2 Relationship Between *Guanxi* and Corruption in China

Guanxi is a very essential for Chinese businessmen (Zhang, 2013). And, it becomes almost indistinguishable from corruption. In fact, most claimed that their business could not survive in China without engaging into a single form of corruption. This requires businessmen to engage into occasional drinking, dining, and partying to maintain influential networks. They claim that to smoothen the steps of getting business permits, licenses and other business transactions, they give gifts and outright bribes to government officials. According to Zhang (2013), one businessman estimates that around 3 percent to 5 percent of his company's operating expenses can be attributed to maintaining guanxi.

According to Zhang (2014), public opinion shows that corruption is considered as the most hated social problem in China, yet almost all are guilty of committing it in one form or another. For instance, the author said that when her father became seriously ill, they took him to a hospital and when they were told that all the hospital beds were already occupied, they turned to their guanxi to ask for help. Fortunately, one of their relatives who is a well-connected official managed to secure a private hospital room for her father. In return, the hospital director and their relative agreed to get the director's son into the top school in Nanjing (Zhang, 2014). This is just a manifestation of how it becomes very difficult, if not impossible, to distinguish guanxi and corruption. In fact, both guanxi and corruption have become intertwined with Chinese social norms.

To illustrate further the relationship between *guanxi* and corruption, the case of Ling Jihua, a former Chinese presidential aide, is examined. Mr. Ling, who was considered as one of the highest ranking Chinese officials to be sentenced and jailed for corruption, was found guilty of

abusing his power, taking bribes, and illegally acquiring government secrets (Wong, 2016). Accordingly, Mr. Ling served as a top aide to former Chinese president and Communist party chief Hu Jintao from 2007 to 2012 (Phillips, 2016). As the top aide, Mr. Ling was in-charge of overseeing the General Office that handles all administrative matters for the Communist party chief and the other leaders of the party. However, in December 2014, Mr. Ling had been officially placed under investigation for alleged graft and corruption. After about one and a half year of investigation, Mr. Ling was found guilty and was sentenced to life in prison. The case of Mr. Ling and other high profile Chinese officials involved in corruption has revived the debate regarding the relationship between *guanxi* and the proliferation of corruption in the government.

However, based on a study conducted by Han (2016), it was determined that *guanxi* is not the cause of the rampant corruption in China. Rather, *guanxi* serves only as a tool that is used by many Chinese officials to engage in corruption. In simple words, *guanxi* becomes the “passive factor in corruption” (Han, 2016). However, Han (2016) argued that *guanxi* can only be used for corruption purposes if there is information asymmetry in the government. *Guanxi* is used in many aspects of the government, including legal rulings, commercial business transactions, and promotions of government officials, among others (Han, 2016). Gifts, money, and service are considered the major basis to maintain long-term connections in China. Various evidence revealed that judicial and police activities in China are highly influenced by *guanxi* networks, which perpetuates corruption and injustice in the country’s legal system. *Guanxi* also distorts the rule and enforcement of law and the entire criminal justice system by means of permitting criminals to develop mutually beneficial connections with government officials (Han, 2016). Through bribery and other forms of valuable services and expensive gifts, some criminals escape

being sentenced for their crimes committed. As such, *guanxi* becomes a vital tool for individuals to engage in corruption.

Another case can be also considered to understand more the effect or role of *guanxi* to corruption by studying the corruption case of Zhou Yongkang and his relationship in Sichuan plus his other allies. Under the presidency of Xi Jinping, his anti-corruption campaign little by little uncover the corrupt activities of Yongkang and followed by his allies. As known to many, Yongkang is among the powerful men in China until his retirement in 2012. He was a former top Chinese police official as well as politician. The image below put in a chart the power of his influence through his network, which can be referred as his *guanxi* network.

Zhou Yongkang's Spheres of Influence



Source: BBC News

Yongkang did not succeed in exercising his corrupt activities and did not rise into power without achieving first a good relationship to people whom he knows could help him achieve his purposes. Among these people are already named in the Zhou Yongkang's Spheres of Influence posted above. Yongkang established a good relationship with Bo Xilai who is now in jail by forming a clique to challenge capitalist policy. He also has a good relationship with Liu Han, a very rich businessman in Sichuan but was executed in February 2015 because of "organizing and leading mafia-style crime and murder" (Wu, 2015). These allies of Yongkang shares common relationship to each other that can be referred as *guanxi*. As an effect of this relationship, this group of people protect the identity and the interest of each other to allow themselves to operate their corrupt activities. This can be proven by the way Yongkang protected Han in organizing and leading mafia-style crime and murder (Wu, 2015). Therefore, the *guanxi* network association to corruption is to give reason for two people or a group of people to protect the interest of each in order to successfully conduct corrupt activities.

Accordingly, it is important to distinguish a legitimate *guanxi* practice from unethical one, which leads to corruption (Harding, 2014). Since *guanxi*'s scope and influence with China's history, politics, culture, and society are extremely broad, it is not easy to differentiate a genuine *guanxi* practice from an illegal and unethical one. The rules of *guanxi* are ubiquitous within the Chinese society and its practice can be tracked over thousands of years ago (Harding, 2014). In the case of China, offering valuable gifts is considered as the most effective way of developing influential relationships and connections. However, this is also considered corrupt in most instances as it is usually given in exchange of favors. In fact, it affects the decisions of government officials as they feel indebted to reciprocate the gifts and bribes that they receive.

Based on the combination on empirical evidences gathered through the published resources, it was determined that the rules of *guanxi* are deeply embedded within the Chinese society. In fact, *guanxi* is considered as a moral norm influencing suitable social behavior within the Chinese culture and provides the standards and rules on the establishment, continuance, and use of relationships and connections. More specifically, *guanxi* has profound influence on almost all social interactions in China, whether it's in the government or in business.

The concept of *guanxi* can be the same the concept of “who you know” in other Asian countries like in the Arab nations as well as in the Philippines. As mentioned earlier, the Arabic word for *guanxi* is “wasata,” which means nepotism. This is prevalent in the political context of these mentioned countries although, it is not directly related to corruption. Just like *guanxi*, nepotism can be a tool to engage in corruption. According to an article published in Facts and Details, nepotism is among the serious problem in the Philippines aside from corruption (2017). Example, the “who you know” concept or nepotism can be applied in the political context by voting, selecting, hiring, serving the person they know. Not only that, people try also their best to be known or establish relationship with the government officials in exchange for something like jobs and the likes. Because the Filipinos mostly prefer people they know, they are not far from establishing a group sharing common intentions that can be associated with graft and corruption. A popular corruption case happened in the Philippines is the pork-barrel scam by Janet Lim Napoles. Pork-barrel is a metaphor term for localized government spending. Among the sources of this government fund appropriated in the localized project are from the taxes collected from the people. In the case of Napoles, she established ghost projects with her political allies like the senator Bong Revilla (Romulo, 2013). Through this way, the money from the government will be placed in their pockets.

In the Arab nations, Somalia is the most corrupt nation as presented by the CPI published in the TI. Also, in an article written by Soldaad, nepotism is a cancer in Somalia (2013). It is the practice of all people in power and this obviously result in massive corruption in this country.

Now, the researcher tries to compare the GI, CPI, and the rate of population under poverty line of these three countries.

GI, CPI, and the Rate of Population under Poverty Line of China, Philippines, and Somalia

Countries	GI (2016)	CPI (2016)	Poverty Rate (2016)	Nepotism/ <i>Guanxi</i> Intensity
China	46.5	40	6.1	Moderate
Philippines	43.1	35	25.2%	Moderate
Somalia	No data	10	73%	Serious

Based on the serious corruption through its CPI score of 10, 73% of the population lives in poverty and serious nepotism in Somalia, it will reflect to the income inequality of the country. It is predictable that it has the highest income inequality. Second is China who has the score of 46.5 and third is the Philippines with 43.1. China's income inequality may be higher than that of the Philippines but it has the lowest poverty rate and highest score of CPI. Through the comparison of these three countries, it is perceived that income inequality does not always relate to corruption as observed between the case of Somalia and China. However, the data above shows that Somalia who has the serious corruption also has the serious practice of nepotism as resulted from the conducted research from the published resources. Corruption is also present in China as well as Philippines where *guanxi* or nepotism exist but not as serious as Somalia. Therefore, the research suggests that the seriousness of corruption in a certain country is deemed linked to the seriousness of nepotism or *guanxi* exercised within the country.

During these days, Somalia, Philippines and China has their own anti-corruption campaign. Also, in the Philippines, it has the so-called nepotism law which is called as Republic Act No. 2260. With these rule of laws, they can be helpful to minimize the practice of corruption that sometimes results from nepotism or *guanxi*.

A more viable solution to China's massive corruption problems is to roll out an all-encompassing information dissemination campaign on the unwritten rules of *guanxi* and encourage government officials and governors to follow these rules to ensure that their behaviors are not corrupt. When the rules of *guanxi* are strictly observed in all government and business practices and transactions, the behaviors can be considered legitimate *guanxi* practice. Moreover, since the absence of separation between the private and public life of Chinese government officials through their *guanxi* networks often contributes to corruption, it is deemed necessary to build a boundary between their private and public ties.

The current administration's vast crackdown on corruption is just the first step to the complete eradication of government corruption. It should be supplemented with a massive but gradual reform in the bureaucratic system, upholding the rule of law, improving transparency and accountability, and allowing the ever-critical public supervision. There should be active and regular checks-and-balances on government officials and governors to ensure that they perform their duties and responsibilities within the boundaries set by law. In addition, the government should introduce rules and regulations that are simpler and more conducive to businesses. By eliminating various burdensome and unnecessary processes in the government, corruption can be dramatically reduced by reducing the chances and temptations that government officials will engage in corruption.

Moreover, one of the ways to eliminate corruption in the government is to eradicate information asymmetry. This can be done through regular information dissemination campaigns. Information should be free and readily accessible so that people can make better decisions without the need to ask for help from their *guanxi* networks. Rules, regulations, processes should be available in various government offices and agencies and accessible to the people. For instance, the rules on how to get business licenses, the amount of payments needed, the agencies and people in charged and other necessary information should be posted in government offices. There should be no hidden rules in government dealings and guidelines should be stipulated in official documents. By making people informed of government processes and activities, corruption can be substantially reduced.

6. CONCLUSION

The analysis revealed that corruption is indeed a serious problem in various government offices and agencies that needs to be addressed. The arrest of many Chinese government officials, including both high-ranking and lower level government employees, prove the prevalence of corruption practices in the government. China's burdensome and complex regulatory and bureaucratic system has created strong incentive and opportunity to engage in corrupt practices and cover their acts. Studies also revealed that the corruption cases involving high-ranking officials have dramatically increased over the past decades. In fact, the amount of illicit money involved in corruption incidents has also sharply increased in recent decades, signaling that the problem has become more serious than it seems. The case of Ling Jihua and Zhou Yongkang is an example of how a high-ranking government official who had been tasked to oversee

administrative activities of an important government agency had abused their power and bribe people to advance their personal interests.

Based on the empirical evidences and analysis conducted, despite the prevalence of corruption in China, the government can still combat corruption by means of using a top-down approach and by enforcing a total ban on any form of corrupt practices. While abuses to the Chinese concept of *guanxi* is usually the main causes of corruption within the Chinese government, this study determines that it is impossible to completely eliminate it since it has already become part of the Chinese society and the everyday lives in China. Thus, *guanxi* should still be allowed within the government but government officials should strictly follow the legitimate rules of *guanxi* to avoid giving in to the temptations of committing corruption. The usual practice is that individuals give money, service, or any valuable gifts as a way to maintain their *guanxi* networks, which often lead to corruption. This should be discontinued and instead, good *guanxi* relationships should be maintained based on trust, loyalty, mutual warmth, and respect – the real essence of *guanxi*.

It is also important that the government's massive anti-corruption campaign should be accompanied with improvement and massive reform in various government institutions, and in the bureaucratic system. The government should aim to increase transparency, strengthen accountability, and maintain strict law enforcement and indispensable supervision from the general public.

Last but not least, it should be admitted that different types of exchanges have different meanings. *Guanxi* is a branch of Chinese culture but it is distorted in both political and economic fields recently. It is essential to clarify that *guanxi* is not a direct cause of corruption, rather, it is

falsely used as a tool by government officials in China. Thus, how to distinguish guanxi network out from Chinese culture and emerging corruption, how to keep the good aspects of guanxi network and get rid of the bad can be a complex issue faced by Chinese government.

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