



***THE IRIS DISCUSSION PAPERS
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**DREAMS OF RED MANSIONS:
CAUSES AND CONSEQUENCES OF
CHINESE MILITARY CORRUPTION**

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Paper No. 0206

February, 2004

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Keywords: corruption, China, military, monitoring.

JEL Codes

^{*} This report was prepared as part of an IRIS project for The Office of Net Assessment, U.S. Department of Defense. Review of this material does not imply Department of Defense endorsement of factual accuracy or opinion. The project reports are published as *The Corruption Nexus and the People's Republic of China: Current Thinking on Causes and Consequences* (IRIS, 2004).

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Dreams of Red Mansions: Causes and Consequences of Chinese Military Corruption

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Corruptio optimi pessima: "The corruption of the best is the worst of all."

One of the oft-noted side-effects of China's economic reforms since 1978 has been the widespread proliferation of corruption. Numerous studies have examined the causes and consequences of this phenomenon in party and government contexts.¹ Military corruption in China, however, has not received the same level of attention, and the few studies on the subject often lack any conceptual framework.² The goal of this chapter is to explore the phenomenon of military corruption in China, focusing on its structural origins and on its consequences for the People's Liberation Army (PLA) as an institution, for Chinese civil-military relations, and for China's national security. Particular attention is paid to the relationship between PLA corruption and the military's historic involvement in the economy, especially the possibility that such involvement was the primary enabling factor for the growth in corruption in the armed forces during the 1980s and 1990s. Given the extreme paucity of empirical data on military corruption in China, however, this discussion will necessarily be more deductive and conjectural than factual, seeking primarily to clarify some of the analytical and conceptual issues surrounding the phenomenon.³

This report is divided into six sections. The first section, a review of the literature on corruption, defines military corruption for the purposes of this analysis. The second section summarizes the main argument of the study, while Section III provides an outline of the evolution of Chinese

¹ These include Alan Liu, "The Politics of Corruption in the People's Republic of China," *American Political Science Review*, 1983, pp.602-623; Stephen Ma, "Reform Corruption: A Discussion on China's Current Development," *Pacific Affairs*, Vol.62, No.1, Spring 1989, pp.40-52; Leong H. Liew, "Rent-Seeking and the Two-Track Price System in China," *Public Choice* 77, 1993, pp.359-75; Melanie Manion, "Corruption by design: bribery in Chinese enterprise licensing," paper presented at APSA, September 1994; Richard Levy, "Corruption, Economic Crime and Social Transformation Since the Reforms: The Debate in China," *The Australian Journal of Chinese Affairs*, No.33, January 1995, pp.1-25;

² Two notable exceptions are June Teufel Dreyer, "Corruption in the People's Republic of China: For Good or For Evil?" (paper prepared for the 5th Annual AEI Conference on the People's Liberation Army, Staunton Hill, 17-19 June 1994); and David Goodman, "Corruption in the People's Liberation Army: Structural Imperatives in the Transformation of the Party-State," (paper prepared for the IISS/CAPS Conference entitled 'Chinese Economic Reform: The Impact on Security Policy,' Hong Kong, 8-10 July 1994).

³ The data problems presented by Chinese military corruption reflect the continuing obsession with secrecy in the PLA, particularly concerning embarrassing behavior in its ranks. As such, there are few if any official published figures on the extent or character of corruption in the Chinese military, and those figures are often tainted with Staats's "corruption of corruption reporting," wherein corruption statistics or corrupt individuals are identified for specific political purposes. See Steven J. Staats, "Corruption in the Soviet System," *Problems in Communism*, Vol.21, #1, January-February 1972, p.40.

military corruption from 1949 to the present. The fourth section analyzes the origins of PLA corruption, and Section V evaluates its consequences for the PLA as an institution and the Chinese system more broadly. The final section offers some conclusions and speculates about future trajectories.

I. Definitional Dilemmas

One of the most persistent obstacles in the analysis of corruption has been the problem of definition, specifically, the definition of the term "corruption" itself. Previous studies can be divided into four broad categories or schools of thought: (1) moralist; (2) legalist/public service; (3) market-centered; and (4) public-interest. Each of these contains particular methodological and ideological assumptions, and all are thus open to criticisms of bias. Moreover, all four frameworks encounter theoretical difficulties in analyzing military corruption, given their traditional emphasis on non-military activities.

(1) The moralists are the oldest school of thought on corruption. The proponents of this viewpoint argue that all forms of corruption are inherently bad, since they undermine the existing social and political order.⁴ Machiavelli defines corruption as the "process whereby the *virtu* of the citizen is undermined and destroyed"; it is this belief in a corruptible core of virtue in society that forms the heart of the moralist argument. Critics of the moralist school reject its explicit assumption that Western standards of morality and social interaction are universally applicable. If this assumption is removed, then the moralist argument presents some immediate methodological problems for the observer, as summarized by Bayley:

It not infrequently happens...in developing non-Western societies that existing moral codes do not agree with Western norms as to what kinds of behavior by public servants should be condemned. The Western observer is faced with an uncomfortable choice. He can adhere to the Western definition, in which case he lays himself open to the charge of being censorious and he finds that he is condemning not abhorrent behavior, but normal acceptable operating procedure. On the other hand, he may face up to the fact that corruption, if it requires moral censure, is culturally conditioned. He then argues that an act is corrupt if the surrounding society condemns it. The usage, however, muddies communication, for it may be necessary then to assert in the same breath that an official accepts gratuities but is not corrupt.⁵

Given these substantive and methodological pitfalls, the moralist definition is inappropriate for analysis of Chinese military corruption.

(2) The public office-legalist school (Scott, Bryce, Johnston, Nye, McMullan, Bayley) attempts to overcome the moralist trap by combining formal duties of the public office with the

⁴ Indeed, Graeme Moodie asserts that confusion over the nature of corruption persists in part "because writers have been loathe to sacrifice the element of moral disapproval inseparable from the word itself" ("On Political Scandals and Corruption," *Government and Opposition* 15, Spring 1980, 208-10).

⁵ David Bayley, "The Effects of Corruption in a Developing Nation," *Western Political Quarterly*, XIX, No.4, December 1966, 719-732, reprinted in Arnold J. Heidenheimer, ed., *Political Corruption: A Handbook*, 935-952.

existing laws of the country as a standard for judging corrupt behavior.⁶ A strict legal definition is offered by James Bryce:

Corruption may be taken to include those modes of employing money to attain private ends by political means which are criminal or at least illegal, because they induce persons charged with a public duty to transgress that duty and misuse the functions assigned to them.⁷

Joseph Nye expands this conception to include the duties of formal office, creating a synthesis that is very popular among legalists:

Corruption is behavior which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains or violates rules against the exercise of certain types of private-regarding influence. This includes such behavior as bribery (use of a reward to pervert the judgment of a person in a position of trust); nepotism (bestowal of patronage by reason of ascriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private regarding uses).⁸

The advantages of this definition are that it excludes any subjective consideration of moral standards or the public interest from study of the phenomena, and allows the use of existing legal codes and regulations as a standard of empirical measure.

On the other hand, the public office-legal definition has some serious problems that reduce its usefulness in examining corruption in a Chinese context. First, Nye's definition has been criticized by Sinologists for overemphasizing the individual and personal, ignoring the "considerable evidence that cadres and entrepreneurs engage in apparently corrupt behavior for collective, and not just personal, ends."⁹ John Kramer terms this "bureaucratic gain," or "corrupt practices committed by officials to enhance organizational performance and efficiency to the benefit of organizational employees."¹⁰ Second, it could be argued that "law itself is a political product, not holy writ, and many of those in a position to take part in corruption are also in a position to write or rewrite the law, perhaps legitimizing their own conduct."¹¹ The Chinese Communist Party's continued monopoly on political power allows it to either ignore the activities of its members or actively legitimize their actions by changing the law. Third, it could be argued that many corrupt acts are not strictly illegal in the sense that they violate any formal rules or laws, yet are still considered dubious and even unethical. This would include corrupt acts like patronage appointments, which are often a function of official discretion and not explicitly illegal (also known as the "furtive exercise of authority and power under the pretense

⁶ A few examples of the public office-legalist school are: *ibid.*; Joseph Nye, "Corruption and Political Development: A Cost-Benefit Analysis," *American Political Science Review*, LXI, 2 (June 1967), pp.417-27; James Bryce, *Modern Democracies*, Vol.II, (New York: St.Martin's Press, 1921); and M. McMullan, "A Theory of Corruption," *Sociological Review* 9:2, June 1961, pp.181-200, reprinted in Arnold J. Heidenheimer, ed., *Political Corruption: Readings in Comparative Analysis*, pp.317-330.

⁷ Bryce, *op.cit.*

⁸ Nye, p.966.

⁹ Goodman, p.2.

¹⁰ John Kramer, "Political Corruption in the U.S.S.R.," *Western Political Quarterly*, June 1977, p.218.

¹¹ Michael Johnston, *Political Corruption and Public Policy in America*, California: Brooks/Cole Publishing Company, 1982).

of legality"¹²). Fourth, "corruption will often take the form of a perversion of legal rules by misinterpretation . . . [that] challenges the intended generality of the rule."¹³ As these "exceptions" multiply, they often become the rule, undermining the original legal intention. Finally, there is an unavoidable *ex post facto* aspect to anti-corruption laws, since many are designed to combat specific and often transitory new forms of corruption. In other words, the creativity of criminal elements in discovering fresh avenues of corruption usually outpaces the attempts to legislate against them, giving anti-corruption laws an overly-specific and often outdated focus.¹⁴ This final phenomenon is exacerbated by the fact that China is rapidly modernizing, and therefore its overall values structure is in a state of flux. As Huntington has argued, the conflict between traditional values and modern values is particularly acute during the intense transition phases of modernization, and this tension contributes to the ambiguity of legal and social norms, especially when the government is relinquishing many of its political and economic monopolies.¹⁵

These five criticisms of the public office-legalist school are especially relevant to Chinese military corruption. First, there is considerable evidence that the particular units in the military act collectively to undertake corruption, and in some cases, they act for the benefit of the unit rather than the individual. Second, the military historically enjoyed a monopoly on law enforcement within its ranks, such that its laws took precedence over civilian laws. This allows the PLA to shield its soldiers from external prosecution and perhaps even to design regulations that legitimize the corrupt activities of its rank-and-file. Of course, the Chinese Communist Party (CCP) oversees the political aspects of the military, but, as discussed above, its track record in punishing its own cadres is not impressive. If the CCP ever undertook a seriously rigorous rectification in the PLA, it would quickly draw attention to its own malfeasances. As a result, both the military and the party continue to exhibit a pattern of internal "justice" that weakens the usefulness of legal standards for judging corrupt behavior in the Chinese military.

Third, the nature and timing of the PLA's few anti-corruption regulations compound the problem of using laws as standards, because of their *ex post facto* nature. In the early reform period, military regulations did not specifically mention corruption arising from the military's participation in the economy, which was in fact the largest source of corrupt behavior.¹⁶ It was not until regulations were issued in 1985 that the PLA leadership addressed the rapidly growing

¹² H.A.Brasz, "Some Notes on the Sociology of Corruption," *Sociological Neerlandica*, 1:2, Autumn 1963, pp.111-117, reprinted in Arnold Heidenheimer, *Political Corruption: Readings in Comparative Analysis*, (New York: Holt, Reinhart and Winston, 1970), pp.41-45.

¹³ Carl J. Friedrich, "Corruption Concepts in Historical Perspective," (1972) in Arnold J. Heidenheimer, ed., *Political Corruption: A Handbook*, (New Jersey: Transactional Publishers, 1989), p.17.

¹⁴ "Corruption is essentially a contested concept in the contemporary PRC even though there are some activities and behaviors that may be universally agreed to be corrupt...In the recent past, the CCP has frequently used the designation of corruption as a political weapon and demonstrated its facility for branding as corrupt behavior that it has *ex post facto* decided to criticize." See Goodman, pp.1-2.

¹⁵ Samuel Huntington, *Political Order in Changing Societies*, (New Haven: Yale University Press, 1968), pp.59-71.

¹⁶ It must be noted that the military law has precedence over civilian laws, and therefore the PLA is largely responsible for policing itself. This arrangement will be discussed in more detail in the section of the paper dealing with the structural advantages of the PLA, since it probably accounts for the low prosecution rate of military offenders in corruption cases.

problem of improper economic behavior.¹⁷ Similar regulations, entitled the "Notice on Launching an All-Army Taxation, Finance, and Commodity Price Inspection" (commonly known as the "Ten No's"), were re-issued in 1988, perhaps indicating that the earlier directive had been less than effective.¹⁸ The "Ten No's" are very specific in their focus and reflect the concrete experiences of the military procurator office in dealing with these types of crimes. This specificity is a major weakness of the directive, since it cannot address the new forms of corrupt behavior that have appeared since the promulgation of the document. Despite this problem, military officials concerned with economic affairs continue to call for "a precise definition of what is permissible together with an unequivocal definition of all that is prohibited," incorrectly reasoning that the identification of particular methods will aggregate into a comprehensive (and therefore effective) anti-corruption policy.¹⁹ Recent anti-corruption regulations, such as the 1993 Central Military Commission (CMC) circular entitled "Opinions on Strengthening Management Over the Military's Finance and Economy," adhere, not surprisingly, to this same pattern, identifying specific malfeasances like the building of holiday resorts but ignoring the larger macro-level trends that create the corruption.²⁰ Thus, the public office-legal definition of corruption is of limited utility to a discussion of the complexities of Chinese military corruption.

(3) A third alternative definition of corruption is known as the "market-centered" definition of corruption.²¹ Borrowing the language of economics, this school argues that:

A corrupt civil servant regards his public office as a business, the income of which he will, in the extreme case, seek to maximize. The office then becomes a "maximizing unit." The size of his income then does not depend on an ethical evaluation of his usefulness for the common good, but precisely upon the market situation and his talents for finding the point of maximal gain on the public's demand curve.²²

This model is devoid of all moral, legal, or office-centered concerns, reducing the interaction between the bureaucrat and the public to a point on the supply-demand curve. Measurement is problematic, however, since the "product (services generally) of a governmental organization is frequently of such a nature as not to be susceptible to being priced in a market or perhaps to

¹⁷ Fan Wensheng and Li Huanxing, "Wuhan Military Region Headquarters Makes Prompt Correction of Failure to Conform to Production Management Rules," *Hubei Ribao*, 5 March 1985, p.1, in JPRS, 14 June 1985, pp.95-96; and "Hainan PLA Halts Improper Business Activities," Hainan Radio, 2 March 1985, in FBIS, 6 March 1985, pp.P1-2.

¹⁸ "Notice on Launching an All-Army Taxation, Finance, and Commodity Price Inspection," *Xinhua*, 2 November 1988, in FBIS, 7 November 1988, p.39. See also "PLA Regulations Concerning Military Discipline," *Jiefangjun Bao*, 26 June 1990, pp.1-2, in FBIS-CHI-90-140, 20 July 1990, p.35.

¹⁹ "An Opinion Concerning the Problem of Repeatedly Being Unable to Prohibit Successfully," *Junshi Jingji Yanjiu (Military Economic Studies)*, No.9, 1989, p.96.

²⁰ "Opinions on Strengthening Management Over the Military's Finance and Economy," *Xinhua*, 21 July 1993, in FBIS, 26 July 1993, pp.32-33.

²¹ The major works of the "market-centered" school are Jacob van Klaveren, "The Concept of Corruption," (1956), reprinted in Arnold Heidenheimer, *Political Corruption: Readings in Comparative Analysis*, (New York: Holt, Reinhart and Winston, 1970), pp.38-40; and Robert O. Tilman, "Emergence of Black-Market Bureaucracy: Administration, Development, and Corruption in the New States," *Public Administration Review*, 28:5, September-October 1968, pp.440-442, reprinted in Arnold Heidenheimer, *Political Corruption: Readings in Comparative Analysis*, pp.62-64.

²² van Klaveren, pp.38-40.

quantitative measurement of any kind."²³ This is especially true in a military context, where motivation is theoretically driven by professional concerns, not "economic incentives."²⁴

(4) The final and most useful definition for this study comes from the "public interest" school (Friedrich, Rogow and Lasswell) of corruption studies.²⁵ The patriarch of this school is Max Weber, whose writings on bureaucracy form its theoretical foundation.²⁶ Weber asserts that rational (i.e. non-corrupt) bureaucracy is characterized by fixed, hierarchical roles and duties for civil servants, impersonal authority, and competent service separated from the means of production.²⁷ An advocate of the public interest framework, therefore, would define corruption as an act which "violates responsibility toward . . . public or civic order and is in fact incompatible with (destructive of) any such system."²⁸ This conception can even accommodate the phenomena of collective corruption, as dichotomized by Banfield:

An agent is *personally corrupt* if he knowingly sacrifices his principal's interest to his own, that is, if he betrays his trust. He is *officially corrupt* if, in serving his principal's interest, he knowingly violates a rule, that is, acts illegally or unethically albeit in his principal's interest.²⁹

Thus, a military unit that engaged in corruption as a collective *for collective benefit* would be considered "officially corrupt," while a unit that engaged in corruption as a collective for personal benefit would be considered "personally corrupt."

Weber would probably conclude that China was still a pre-bureaucratic system, and therefore public interest could not be used as a standard. Some might also assert that a person may be corrupt who does not in fact commit a violation of duty.³⁰ Nonetheless, the public interest model is more appropriate for analyzing military corruption than the previous models for three reasons.

First, the definition does not contain problematic references to subjective moral or legal codes, exemplified in the moralist or formal-legal conception of corruption, which would raise

²³ Edward Banfield, "Corruption as a Feature of Governmental Organization," *The Journal of Law and Economics*, 1975, p.595. A very similar argument is made in Vilfredo Pareto, *Manuel d'economie politique* (translation), Paris, 1909, p.196.

²⁴ Samuel Huntington, *Soldier and the State*, (New Haven: Yale University Press, 1958), p.15. Elements of the Chinese military also understand this, as seen in a *Liberation Army Daily* editorial: "The Army is part of the superstructure of society and does not directly participate in economic construction and in the production of material wealth. The purpose that the Army should not pursue should not be economic yields but national security." See Gao Tianzheng, "Correctly Handle the Relationship Between Advocating the Dedicating Spirit and Implementing the Material Interest Principle," *Jiefangjun Bao*, 9 February 1989, p.3, in FBIS, 17 February 1989, pp.35-37.

²⁵ The major works of this school include Carl Friedrich, *Man and His Government: An Empirical Theory of Politics*, (New York: McGraw-Hill, 1963); Carl Friedrich, "Political Pathology," *The Political Quarterly* 37, January-March 1966, pp.70-85; and Rogow and Lasswell, *Power, Corruption, and Rectitude*, (Englewood Cliffs, NJ: Prentice-Hall, 1963).

²⁶ See Max Weber, *Economy and Society*, Vol.2, (Berkeley: University of California Press, 1978), p.956.

²⁷ A pre-bureaucratic system, by contrast, is characterized by weak centralization, non-restrictive hierarchy, badly defined roles, personalism, and an ambiguous relationship between government officials and the private sector.

²⁸ Rogow and Lasswell, *Power, Corruption, and Rectitude*, (Englewood Cliffs, NJ: Prentice-Hall, 1963), p. 54.

²⁹ Banfield, pp.587-588.

³⁰ Bayley, p.937.

troubling questions about the applicability of Western norms to the Chinese context. Second, the legalist definition of corruption (which assesses actions in reference to an existing code of laws) is inappropriate for a country like China in the intense transition phases of modernization, when the government is relinquishing many of its political and economic monopolies, making legal and social norms ambiguous.³¹ Third, the definition does not unnecessarily assume an economic motivation within the targeted institution, as does the market-centered model. Most importantly, however the public interest framework captures the unique, central importance of "duty" in a military context. To a greater extent than even government bureaucrats, members of the military are held to a high principle of public service, since they are charged with the defense of the nation's security. Military corruption, therefore, affects more than the simple functioning of a governmental institution. It could, if left unchecked, imperil the country's domestic and external security.

For the purposes of this study, therefore, corruption shall be defined in line with the "public interest" school (Friedrich, Rogow and Lasswell) of corruption studies, as most appropriate for analyzing Chinese military corruption.³²

II. Overview

Military corruption in China is facilitated by a variety of structural factors, such as the PLA's privileged access to infrastructure, transportation, natural resources, and borders, as well as its immunity from civilian monitoring and prosecution.³³ In this respect, corruption in the military and civilian governmental sectors are very similar. Both sectors have reacted to the decentralizing institutional changes of the reform period by engaging in the sanctioned operation of commercial enterprises. Both occupy privileged positions within the economy and polity, which allow them to exploit the national public infrastructure. Between 1978 and 1998, this corruption was exacerbated by the PLA's sanctioned participation in the economy, since it blurred the previously clear line between military and purely entrepreneurial operations.

Just as important as the sources of corruption are its consequences. Some analysts have argued that corruption can have limited benefits to a system characterized by economic irrationalities, an under-rationalized bureaucracy, and a high level of political disenfranchisement. They argue specifically that corruption can perform a variety of positive functions, such as correcting dislocations in supply and demand caused by the transition from central planning to the market, making government bureaucracy more efficient, or giving a political voice to newly prosperous groups within society.³⁴ While recognizing the validity of this argument for government and economic sectors in China, I feel that Dreyer and Goodman's assertions about the positive consequences of military corruption ignore the uniquely destructive impact of this phenomenon upon military institutions.³⁵ In particular, their arguments fail to recognize the extent to which military corruption undermines the unique ethos of discipline, hierarchy, self-sacrifice, and

³¹ Samuel Huntington, *Political Order in Changing Societies*, (New Haven: Yale University Press, 1968), pp.59-71.

³² The major works of this school are noted in footnote 134.

³³ While these factors are a necessary but not sufficient cause of corruption in the PLA, they are the key permissive factor that allows the corruption to survive and proliferate.

³⁴ This theme is explored in Michael Johnston, "The Political Consequences of Corruption: A Reassessment," *Comparative Politics*, July 1986, p.464.

³⁵ See footnote 2.

egalitarianism [mutual reliance?] upon which all military structures are based.³⁶ In addition, corruption may tend to undermine public faith in the military, divert public resources for private purposes, waste precious government funds, raise the price of administrative functions, lower administrative capacity, undermine legal PLA participation in the economy, and weaken the PLA's military preparedness.³⁷

III. Evolution of Military Corruption in China: 1949-present

PLA corruption is not unique to the post-1978 reform period. During the Maoist era, officials used *guanxi* ("connections") to facilitate their children's entry into the ranks.³⁸ Additionally, "backdoor" promotions were common in the officer corps, as was the practice of arranging jobs for an officer's family in the community near his unit. During lean economic times, such as the Great Leap Forward and its immediate aftermath, officers enjoyed special privileges that allowed them to "misappropriate the labor of the masses."³⁹ The secret "Bulletin of Activities" describes a Rear Services Department bureau head named Chao Chin-fu, who would go to a unit whenever that unit was preparing to slaughter a hog, and ask for some of the pork. Apparently, this official accumulated so much preserved meat in his house that he earned the nickname "head of the Bureau who keeps a butcher shop."⁴⁰ Another anecdote from this source tells of the officers and leading cadres of the Jiangmen Military Sub-District, who sold the vegetables produced by that unit but only distributed 27% of the vegetables and 44% of the gourds to the company unit.⁴¹

There is a fundamental difference, however, between the military corruption of the Maoist and post-Maoist eras; namely, the pre-reform corruption did not primarily take monetary form, since money itself played a relatively minor role in China under Mao. Instead, nepotism, patronage, and minor forms of gift-giving were tacitly accepted. While these activities continue, military corruption since 1978 is far more money-driven in nature.⁴² The change can be explained by the much greater *opportunity* for corruption facilitated by the opening of China's economy to global market capitalism and military participation within that economy. Additionally, the new corruption often involves more "external contacts," meaning that members of the military are

³⁶ For a discussion of the core values of military organizations, see Finer, *The Man on Horseback*, p.7.

³⁷ This list of consequences is adapted from Edward Banfield, "Corruption as a Feature of Governmental Organization," *The Journal of Law and Economics*, 1975, p.589.

³⁸ This discussion is drawn from Dreyer, "Corruption in the People's Republic of China," pp.8-12.

³⁹ J. Chester Cheng, *The Politics of the Chinese Red Army: A Translation of the Bulletin of Activities of the People's Liberation Army*, (Stanford, CA: The Hoover Institution on War, Revolution and Peace, 1966), p.737.

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² This trend was identified in "Meeting of the Discipline Inspection Commission of the Military Commission Points Out That During Army Reorganization There Have Been Great Gusts of Promotions and Leading Cadres Have Been Finding Jobs for Their Offspring," *Ming pao*, 27 August 1985, p.5 in *FBIS*, 28 August 1985, pp.W1-2. There is also a significant secondary literature on this subject. See especially Connie Squires Meaney, "Market Reform and Disintegrative Corruption in Urban China," in Richard Baum, ed., *Reform and Reaction in Post-Mao China*, (New York and London: Routledge, Chapman and Hall, 1990), pp.124-41.

interacting with civilians to a much greater extent than before to commit crimes of greater and greater scale.⁴³

Using Banfield's earlier analytical distinction, the corrupt activities of the PLA during these two periods can be divided into two general categories: collective corruption and individual corruption. Collective corruption, or "official corruption," encompasses activities by either individuals or entire units that serve the unit or enterprise's interest, despite the fact that such activities knowingly violate a regulation or ethical norm.⁴⁴ One of the most common types of collective corruption in the PLA during the PLA's commercial period was tax evasion, which violated General Logistics Department (GLD) regulations relating to remittance of profits. Central audits since the early 1980s have consistently uncovered significant amounts of enterprise funds hidden in unauthorized unit bank accounts, as enterprises attempted to hide or launder their money through commercial banks and private deposit accounts. As early as 1983, PLA auditing organs uncovered numerous unauthorized bank deposits and expenditures, totaling RMB2.8 billion.⁴⁵ Despite important reforms, such as the establishment of GLD banks at the military region level and new regulations requiring enterprises to deposit their funds in these banks, auditing organs continued to expose caches of hidden funds and unremitted profits through the 1990s. For example, a 1991 audit of three-quarters of units (at regimental-level and above) yielded RMB1.05 billion in undelivered taxes, RMB1.04 billion in outstanding loans, and RMB1.05 billion in overdrawn accounts from 326 illegal bank accounts.⁴⁶ This was equivalent to 20 percent of the previous year's declared military enterprise profits.⁴⁷ If these unremitted funds are used to increase the overall living standard of the unit/enterprise, however, then the collective corruption (tax evasion) has benefited the unit/enterprise at the expense of the regulation and must be considered categorically different from individual corruption. Other types of collective corruption include the unauthorized diversion of unit or enterprise funds to build facilities such as office buildings, guesthouses, hotels, conference rooms, meeting halls, or memorial halls, as well as smuggling by individual units.

Individual corruption, by contrast, involves sub-unit groups of officers and/or enlisted personnel taking part in illegal or unauthorized economic activity for personal gain at the expense of the unit or enterprise. Examples of this type of corruption include diversion of unit funds for the purchase of luxury sedans, feasting, and entertaining; the taking of bribes; and using "backdoor" [zou houmen] connections. Importantly, nearly all of these activities could be considered examples of collective corruption, provided that the beneficiary of the activity is the unit or enterprise rather than the individual or sub-unit/enterprise group.

A snapshot of the scale of individual corruption during the height of PLA, Inc., is captured in Table 13, provided by Tai Ming Cheung. The gaps in the data reflect the continuing obsession with secrecy in the PLA, particularly concerning embarrassing behavior in its ranks. There are few if any official published figures on the extent or character of corruption in the Chinese military. Moreover, those figures are often tainted with what Staats called the "corruption of corruption reporting," i.e., the tendency to release particular corruption statistics or to target

⁴³ "Economic Crimes in the Military: Causes and Countermeasures," *Junshi jingji yanjiu yuebao*, November 1989, pp.37-39.

⁴⁴ Banfield, pp.587-588.

⁴⁵ *Dashidian*, pp.1822-23

⁴⁶ Wang Yihua, "Initial Achievement Made in All-Army Outlay Final Accounting," *Renmin ribao*, 31 May 1992, in *FBIS*, 11 June 1992, p.26.

⁴⁷ *FBIS-CHI-93-033*, 22 February 1993, p.30.

specific individuals for political purposes.⁴⁸ It is nevertheless significant that the incidence of serious crimes with sentences of five or more years increased between 1987 and 1990, precisely the same period in which the extent of PLA involvement in the economy grew most rapidly.⁴⁹

Table 13. PLA Economic Criminal Cases, 1987-1992

Year	Total Cases	Persons Sentenced	Amount Involved (RMB mil)	Losses Recovered (RMB mil)
1987	345 (55*)	440 (67*)		
1988	39*	61*		
1989	102	162		
1990	341 (178*)	478 (268*)		
1991	234 (118)*	306 (152)*		12.8
1992	450		150	33.25

*Serious crimes with prison sentences of five or more years.

Source: Tai Ming Cheung, "China's Entrepreneurial Army: The Structure, Activities and Economic Returns of the Military-Business Complex," (paper presented at the 5th Conference on the People's Liberation Army, Coolfont, West Virginia, 9-11 June 1995), p.25.

In the 1990s, the PLA conducted a rolling set of anti-corruption campaigns, trying to root out illegal behavior. In December 1996, for example, President Jiang Zemin at an enlarged meeting of the Central Military Commission called on the Army to be "ahead of the nation" in the construction of "spiritual civilization," the standard codeword for socialist ethics.⁵⁰ Jiang stressed the three virtues (patriotism, socialism and collectivism), while railing against the "three evils" (money worship, hedonism, and individualism). He specifically criticized the rise of corruption and nepotism involving recruitment into the Communist Party, promotions, and finding jobs for demobilized soldiers. For guidance, he concluded by highlighting a model unit, a People's Armed Police platoon guarding the Qiantang River in Hangzhou, Zhejiang Province.⁵¹

One year later, however, Jiang and the senior military leadership felt compelled to launch another anti-corruption campaign in the PLA. Jiang's speech to the 15th Party Congress in October 1997 offered a dire warning, declaring that the "fight against corruption is a grave political struggle vital to the very existence of the party and the state" and adding that there was

⁴⁸ Staats, "Corruption in the Soviet System" (*op.cit.*), p.40.

⁴⁹ This period is discussed more fully in Chapter Three in the section entitled "1984-89: Growing Pains."

⁵⁰ Willy Wo-Lap Lam, "Jiang Reportedly Urges Army to Set Moral Standard," *South China Morning Post*, 9 January 1997.

⁵¹ In July 2001, Senior Colonel Fan Kuangfu, a political commissar and party secretary of the Jinhua Military Sub-District in Zhejiang Province, was publicly celebrated as the model cadre in the anti-corruption campaign. See Vivien Pik-kwan Chan, "PRC Senior Colonel Fan Kuangfu Set as New Party Hero, Incorruptible High-Level Cadre," *South China Morning Post*, 31 July 2001.

an urgent requirement to preserve “the nature, true color, and workstyle of the people’s army.”⁵² General Zhang Wannian, vice-chairman of the Central Military Commission told a high-level conference on military discipline in January 1998 that “measures would be taken to step up supervision on high and medium-level military cadres and economic crimes will be targeted.”⁵³ In a new twist, he insisted that the only way to prevent economic crimes was to treat “both the symptoms and *causes* of corruption [emphasis added].”⁵⁴ While exhorting units to curb “extravagant spending,” Zhang called for the rectification of units “not obeying the law and having loose management,”⁵⁵ arguing that fighting graft was crucial for stability and unity in the Army and the country. Moreover, he linked anti-corruption campaigns with the fighting mission of the PLA, asserting that “only a clean Army can help the country to reach its target of military modernization.”⁵⁶

At a February 1998 General Logistics Department discipline inspection meeting, General Wang Ke echoed these themes, calling on cadres to “resist the temptations of powers, money, and beautiful women” and “reduce unnecessary socializing.”⁵⁷ Wang also outlined the consequences of failure to heed these warnings, cautioning that the PLA would “strictly investigate and punish corrupt acts without leniency” and that “those who deserve imprisonment will be jailed.” Finally, he clearly laid out lines of responsibility, asserting that cadres were “responsible for properly administering their own units and departments” as well as “their own family members, children, and assistants.” Jiang Zemin continued this drumbeat at a March meeting with PLA delegates to the National People’s Congress, calling on the soldiers to “resist the corrosive influence of any decadent ideology and culture” and promote “frugality, thrift, and opposition to extravagance and waste.”⁵⁸ Jiang then closed with an ominous warning that “this year China would make greater efforts to combat corruption.”

A. Corruption and Divestiture

On 22 July 1998, at an enlarged session of the Central Military Commission, CMC Chairman Jiang Zemin gave a speech in which he called for the dissolution of the military-business complex, asserting:

To make concerted efforts to properly develop the army in an all-around manner, the central authorities decided: The army and the armed police [*wu jing*] should earnestly screen and rectify [*qingli*] various commercial companies operated by their subordinate units, and shall not carry out any commercial activities in the future. . . . Military and armed police units should resolutely implement the central authorities’ resolution and

⁵² “Army Leader Stresses Drive Against Corruption at All-Army Discipline Conference,” *Xinhua*, 23 January 1998.

⁵³ Vivien Pik-kwan Chan, “PLA to Reinforce Discipline in Ranks,” *South China Morning Post*, 24 January 1998, p.7.

⁵⁴ “Army Leader Stresses Drive Against Corruption at All-Army Discipline Conference,” *Xinhua*, 23 January 1998.

⁵⁵ Vivien Pik-kwan Chan, “PLA to Reinforce Discipline in Ranks,” *South China Morning Post*, 24 January 1998, p.7.

⁵⁶ Vivien Pik-kwan Chan, “PLA to Reinforce Discipline in Ranks,” *South China Morning Post*, 24 January 1998, p.7.

⁵⁷ “Senior Chinese Official Urges Military to Intensify Anti-Corruption Drive, Strengthen Ideological Training,” *Xinhua*, 10 February 1998.

⁵⁸ “President Jiang Zemin Tells Army Deputies to Fight Corruption,” *Xinhua*, 10 March 1998.

fulfill as soon as possible the requirements that their subordinate units shall not carry out any commercial activities in the future.⁵⁹

Jiang then sought to consolidate the decree by publicly releasing the announcement through the party's extensive propaganda apparatus. That night, Jiang's speech at the meeting was broadcast on the CCTV *Evening News*, which has the highest rating in China and is closely watched by other Chinese media for cues about important stories. Observers took special note of the fact that the Chinese leader was shown flanked by the top brass of the PLA, implying at least tacit consent to the decision by the military. The next day, the Party's official newspaper, *People's Daily*, ran a banner headline, declaring "PLA Four General Departments Convened in Beijing to Carry Out the Decision of the Anti-Smuggling Meeting," with the subtitle "Chairman Jiang Talked Seriously About Divestiture."⁶⁰ The announcement was then publicly seconded in subsequent days by key members of the military and civilian leadership. From the media barrage, it appeared that the decision might actually have sufficient political momentum to overcome the Catch-22 of military commercial activity: although the civilian leadership recognized the negative consequences of PLA participation in the economy, it had been unable to muster the necessary fiscal resources to replace the PLA's essential income from the military's economic enterprises.

The reasons behind Jiang's divestiture decree are not entirely known, but there are at least two competing stories. One rumor claims that divestiture was initiated by an angry Jiang Zemin upon receiving an account of the excessively corrupt activities of six PLA and People's Armed Police companies, the most egregious of which involved oil smuggling that was bankrupting the country's two geographical oil monopolies.⁶¹ The smugglers were taking advantage of a wide disparity between the artificially high domestic price of oil in China, which was set at RMB1500 per ton in mid-1998, and the global price, which had fallen to RMB900 per ton.⁶² One report assessed the losses of the mainland's petrochemical industry as more than RMB10 billion in the first half of 1998 alone,⁶³ and possibly as high as RMB20 billion for the year.⁶⁴ Other reports alleged that more than 3,700 oil wells had closed because of the resulting glut at petrochemical enterprises, such as Daqing oil field.⁶⁵ Smugglers like Lai Changxing and the Yuanhua Group (see below) were reportedly moving almost 42 million barrels of oil into China each year,⁶⁶ or one-third of the petroleum products in the retail market.⁶⁷ By August 1998 the imports of petroleum products had slowed dramatically, down almost 100 percent from the previous year.⁶⁸

⁵⁹ "Jiang Orders PLA-Owned Firms to Close," *Xinhua Domestic Service*, 22 July 1998, in FBIS-CHI-98-204, 23 July 1998.

⁶⁰ See *People's Daily*, 23 July 1998, p.1.

⁶¹ Personal communication with Tai Ming Cheung, 12 November 1998.

⁶² Mark O'Neill, "Lai Changxing Fears the Fate That Befell His Cohorts," *South China Morning Post*, 2 December 2000.

⁶³ "Combating Corruption Brooks No Delay," *Ming Pao*, 4 August 1998, p.E8.

⁶⁴ Mark O'Neill, "Lai Changxing Fears the Fate That Befell His Cohorts," *South China Morning Post*, 2 December 2000.

⁶⁵ Vivien Pik-kwan Chan, "Fujian Party Leaders Urges Deeper Inquiry into Corruption," *South China Morning Post*, 9 March 2000, p.6; and "Nationwide Major Anti-Smuggling Campaign," *Ming Pao*, 28 September 1998, p.A11.

⁶⁶ John Pomfret, "Chinese Tie Leaders to Smuggling; Party, Military Chiefs Among the Suspects," *Washington Post*, 21 January 2000, p.A1.

⁶⁷ "Dirty Linen," *Straits Times*, 30 January 2000.

⁶⁸ David Lague, "Smuggling Clamp May Impede Trade," *The Age*, 14 August 1998.

Indeed, there were widespread reports of rampant smuggling by the military of crude oil, petrochemical products, plastics, construction materials, vegetable oil, metals, telecommunications equipment, guns, ammunition, motorcycles, diesel fuel, rubber, chemical raw materials, textile raw materials, rolled steel, furniture, computers, newsprint, fruit, cars, semiconductors, counterfeit money, drugs, consumer goods, cigarettes, electronics, and food during the Asian economic turmoil in early 1998,⁶⁹ allegedly depriving the government of hundreds of billions of *renminbi* of customs revenue and worsening deflation.⁷⁰ These allegations were given greater credence when customs revenues in 1999 jumped 41 percent to RMB224.2 billion.⁷¹

A second version of the story actually begins with Zhu Rongji.⁷² According to cited U.S. intelligence sources, Zhu Rongji angered the PLA at the 17 July 1998 meeting of the anti-smuggling work conference by accusing the General Political Department's Tiancheng Group of rampant corruption.⁷³ In particular, he singled out a case in which the company had avoided paying RMB50 million in import and sales taxes after purchasing a shipment of partially processed iron ore from Australia. "Every time our customs officials tried to snare these bastards, some powerful military person appeared to speak on their behalf," Zhu allegedly charged at the closed-door meeting. Reportedly, an aide sent by Zhu to investigate the activities of the company had been manhandled and detained by PLA units.⁷⁴ As anger and resentment spread through the PLA leadership, Jiang Zemin allegedly appeared at the conference four days later to lend his support to Zhu, confirming that "some units and individuals" in the PLA were involved in smuggling. According to this account, Jiang thereupon announced the divestiture order.

It is important to note, however, that PLA divestiture was not designed to remove the military entirely from the economy. Instead, the authorities drew an important distinction between "production" (*shengchan*) on the one hand and "commerce" (*shangye*) on the other. The former had existed in the PLA since the late 1920s, in the form of farms and other economic activity that was critical to the standards of living of soldiers and their dependents; this aspect was to continue unabated. The latter, defined as anything that involved direct dealings with "customers" (such as hotels, telecommunications services, or trade), was banned, and the enterprises were either handed over to civilian holding units or disbanded.

In total, 2,937 firms belonging to the PLA and People's Armed Police were transferred to local governments, and 3,928 enterprises were closed.⁷⁵ (In some cases, the enterprises were merely

⁶⁹ David Lague, "Smuggling Clamp May Impede Trade," *The Age*, 14 August 1998; Stephanie Ma, Stella Lee, "'Smuggling Mastermind' Lai Changxing Held in Canada," *South China Morning Post*, 25 November 2000; and Mark O'Neill, "Lai Changxing Says Spied on Taiwan, Hong Kong for PRC," *South China Morning Post*, 01 December 2000.

⁷⁰ Cao Haili, "The Chinese Army Has Sailed Out of the Business Sea," *Caijing*, January 1999, p.2.

⁷¹ Mark O'Neill, "Brekaing Ranks in PLA, Inc.," *South China Morning Post*, 31 January 2001.

⁷² This account is taken from Susan Lawrence's excellent article "Bitter Harvest," which can be found in the 29 April 1999 issue of *Far Eastern Economic Review*, pp.22-26.

⁷³ Susan Lawrence, "Bitter Harvest," which can be found in the 29 April 1999 issue of *Far Eastern Economic Review*, pp.22-26.

⁷⁴ Willy Wo-Lap Lam, "Columnists Claims Army Probing Militaary Accounts Overseas," *South China Morning Post*, 25 July 1998, p.7.

⁷⁵ "March Out of Business Sea: PLA and Armed Police Carrying Out the Decision of Divestiture," *Shidai chao*, March 2000.

transferred to family members of soldiers, or the managing officers retired from active duty to continue operating the firm.) The remaining 8000-10000 enterprises, most of which were the smaller, subsistence-oriented enterprises at the local unit level, remained in the military.⁷⁶ Moreover, the reforms were simply “suspended” in some sectors, especially civil aviation, railway and posts and telecommunications, because of the “special nature” of these industries.⁷⁷ For example, the Air Force’s *China United Airlines* was permitted to continue operating.⁷⁸ Other notable exceptions included the fifty-six numbered factories previously under the control of the GLD’s *Xinxing Group*, which remained under the administrative control of the General Logistic Department’s pared-down Factory Management Department (formerly the larger Production Management Department), and *Poly Group*, which was divided between the General Equipment Department (arms-trading elements like Poly-Technologies), and COSTIND.

As the divestiture entered 1999, however, some serious bureaucratic and political conflicts began to surface, especially discipline issues involving corruption and profiteering. At the beginning of the divestiture process, President Jiang Zemin and Premier Zhu Rongji allegedly ordered a full auditing of the finances of PLA companies, and special investigative teams were checking the accounts maintained by PLA firms in domestic and foreign banks.⁷⁹ State Councilor Wu Yi led the State Council’s anti-smuggling effort, the goals of which included “cracking a number of big and important cases”⁸⁰ against senior officers (“big tigers”).⁸¹ Under review were cases in which party, government and army organs (1) organized and planned smuggling operations, (2) colluded with smugglers, or (3) arrested smugglers but then released them after receiving bribes or percentages of the operation. For their part, the PLA under the leadership of General Fu Quanyou dispatched a special work team to investigate PLA smuggling,⁸² and the provinces of Sichuan and Guangdong were reportedly designated as “pace-setter units” for carrying out anti-smuggling and anti-graft work among PLA units.⁸³ Within Guangdong, civilian and military organs quickly discovered that smuggling was most rampant among the following types of units, in descending order of seriousness: People’s Armed Police, political and legal departments, military units, and subordinate enterprises.⁸⁴

The People’s Armed Police was a top priority target of the anti-smuggling campaign, given its proximity to borders. A number of high-profile cases were investigated by civilian work teams, including:

Case One: The Shenzhen Public Security Department rounded up a smuggling syndicate formed by the armed police and public security forces in August 1998. Among the 10-plus people arrested were a lieutenant colonel of the PAP, a torpedo boat coxswain of the marine police, and

⁷⁶ Personal communication with Tai Ming Cheung, 24 January 1999.

⁷⁷ “Separation of Army From Business Done,” *China Daily*, 21 March 1999, p.1.

⁷⁸ China United Airlines survived divestiture because many remote towns protested that the shutdown on the airline would cut them off from the rest of the country.

⁷⁹ Willy Wo-Lap Lam, “Columnists Claims Army Probing Military Accounts Overseas,” *South China Morning Post*, 25 July 1998, p.7.

⁸⁰ “Nationwide Major Anti-Smuggling Campaign,” *Ming Pao*, 28 September 1998, p.A11.

⁸¹ Willy Wo-Lap Lam, “PRC Launches ‘Loyalty Campaign’ Within PLA,” *South China Morning Post*, 27 April 2000.

⁸² Willy Wo-Lap Lam, “Columnists Claims Army Probing Military Accounts Overseas,” *South China Morning Post*, 25 July 1998, p.7.

⁸³ Willy Wo-Lap Lam, “Jiang Reportedly Pushing for Political Reforms,” *South China Morning post*

⁸⁴ “Nationwide Major Anti-Smuggling Campaign,” *Ming Pao*, 28 September 1998, p.A11.

a border checkpoint inspection officer. They were allegedly involved clearing 40 container trucks with contraband goods worth more than RMB10 million.⁸⁵

Case Two: Commander Chen Youwu, instructor Luo Yicheng, and deputy commander Wu Jianxiong of the Huilai County detachment of the Guangdong General Unit of the People's Armed Police were arrested for colluding with smuggler Huang Haihao and his two brothers, who were engaged in smuggling tobacco into the county by sea. The PAP officers reportedly became the "private bodyguards" of the smugglers. On 23 December 1996, Chen Youwu and Wu Jianxiong reportedly shot and wounded Jieyang City Public Security Bureau anti-smuggling officer Zheng Weiwu as he attempted to intercept Huang Haihao's smuggling ship. The military tribunal of the People's Armed Police gave Chen Youwu a two-year suspended death sentence and sentenced Luo Yicheng and Wu Jianxiong to 10 years and 2 years in prison, respectively.⁸⁶

Case Three: The anti-smuggling leadership groups in Suixi County and Dongguan City in Guangdong Province were charged and convicted of arresting smugglers and then setting them free after receiving large bribes.⁸⁷

Case Four: Yang Xue'en, an officer in the Tianjin People's Armed Police was charged with embezzling more than RMB200,000 from a military fund.⁸⁸

Case Five: Li Yuejian, a PAP officers from the city of Zhoushan in Zhejiang Province, was sentenced to twenty years in prison after being found guilty of accepting \$36,144 in bribes from a petroleum smuggler, Dong Yinsu.⁸⁹

The civilian leadership also aggressively pursued discipline investigations involving corruption in PLA enterprises, much to chagrin of PLA officers who felt that the effort was gratuitous and harmful to the public reputation of the military.⁹⁰ Susan Lawrence of the Far Eastern Economic Review reported from well-placed Chinese sources that the State Economic and Trade Commission Handover Office, which ran the divestiture process, had a list of 23 company executives at the rank of major-general or above who had fled the country since the divestiture was announced.⁹¹ Seven of these officers were from the Guangzhou Military Region, which handed over more than 300 enterprises, and another five were from PLA headquarters. Among the latter was Lu Bin, former head of the General Political Department's Tiancheng Group, who was arrested overseas and extradited in January 2000. Other arrestees included a senior colonel who was the head of one of the PLA's top hotels, the Huatian, which is located in Changsha. A large number of cases involved companies belonging to the Guangzhou Military Region. One case concerned the smuggling of cars by a company under the Intelligence Department of the Guangzhou Military Region and an enterprise under the Ministry of Public Security, involving more than RMB700 million.⁹²

More recent corruption cases involve senior military officials. In May 2001, Lieutenant General Xiao Huaishu, deputy political commissar of the Lanzhou Military Region, was formally

⁸⁵ "Nationwide Major Anti-Smuggling Campaign," *Ming Pao*, 28 September 1998, p.A11.

⁸⁶ "Nationwide Major Anti-Smuggling Campaign," *Ming Pao*, 28 September 1998, p.A11.

⁸⁷ "Nationwide Major Anti-Smuggling Campaign," *Ming Pao*, 28 September 1998, p.A11.

⁸⁸ "More Officials Charged With Corruption in Tianjin," *Xinhua*, 27 January 1999.

⁸⁹ "Border Police Officer Sentenced to Twenty Years in Prison," *Financial Times*, 23 April 2000.

⁹⁰ Susan Lawrence, "Bitter Harvest," *FEER*, 29 April 1999, p.24.

⁹¹ Susan Lawrence, "Bitter Harvest," *FEER*, 29 April 1999, p.24.

⁹² "Nationwide Major Anti-Smuggling Campaign," *Ming Pao*, 28 September 1998, p.A11.

suspended from duty by the Central Military Commission's Discipline Inspection Commission for "accepting illegal profits, being involved with underworld figures, and having sexual relations outside of marriage."⁹³ He, along with his son and driver and four other individuals, were "dual-stipulated" (*shuanggui*) to appear at a stipulated time and a stipulated place for questioning. Xiao was specifically charged with accepting bribes for favorable treatment in the bidding of several large-scale engineering projects. An additional case involved Chen Yanning, the son of a senior military officer in the Chengdu Military Region.⁹⁴

B. Yuanhua Case

In August 1999, Zhu Rongji sent 300 anti-corruption personnel from Beijing to investigate Lai Changxing, president of Fairwell (Yuanhua) Group, accusing him of being the kingpin of an alleged \$10 billion smuggling ring in Xiamen, Fujian Province.⁹⁵ Over the course of more than a half dozen years, Yuanhua allegedly smuggled everything from crude oil to arms, cars, tobacco, telecommunications equipment, and semiconductors, with the direct assistance of local customs, police, and the Chinese navy (who provided naval vessels and military docks to facilitate the smuggling).⁹⁶ The subsequent investigation, known as "Major Case 4-20" for its initiation on 20 April 1999, led to the arrest of more than 300 Fujian Province government, party and police officials, including most of the leaders of Xiamen; central government officials as high in rank as current Politburo Standing Committee member Jia Qinglin were tainted by association. As of July 2002, 14 officials have been sentenced to death for their involvement in the smuggling operation.⁹⁷

From the beginning of the scandal, rumors swirled about the central participation of the PLA in the smuggling racket. Lai's first smuggling operation allegedly involved a military company that needed computer chips, which were illegally imported through a Hong Kong-based firm that he owned.⁹⁸ After moving to Xiamen, the locus of Lai's operation was a seven-story private club in Xiamen called the "Red Mansion" [*Hong Lou*], where Lai reportedly wined, dined and entertained senior officers with five luxury suites, karaoke rooms, a dance floor, cinema, sauna, footbaths, and dozens of prostitutes.⁹⁹ One of the first local officials cultivated by Lai was Lan Pu, Xiamen's deputy mayor with responsibility for relations with local military units, who subsequently fled to Australia. Lan allegedly helped Lai build relationships with senior PLA officers, whom Lai invited to sample the Red Mansion's pleasures. As related by one dance hall girl named Liu Hong who spoke with a *Washington Post* reporter: "I knew many, many generals and colonels then. . . . The generals like the big hot tubs, too, because many of them were a little

⁹³ "Lanzhou Military Region Deputy Political Commissar Summoned for Beijing Involved With Criminal Gangs; Highest Ranking Military Officer to Be Accused of Accepting Bribes and Philandering With Women in Recent Years," *Ming Pao*, 12 June 2001.

⁹⁴ Craig Smith, "China: Corruption Arrests," *New York Times*, 31 July 2001.

⁹⁵ John Pomfret, "Chinese Tie Leaders to Smuggling; Party, Military Chiefs Among the Suspects," *Washington Post*, 21 January 2000, p.A1.

⁹⁶ John Pomfret, "Chinese Tie Leaders to Smuggling; Party, Military Chiefs Among the Suspects," *Washington Post*, 21 January 2000, p.A1.

⁹⁷ Mark O'Neill, "If He Goes Back, He Will Be Toast," *South China Morning Post*, 3 July 2002.

⁹⁸ Mark O'Neill, "Wine, Women and Graft," *South China Morning Post*, 16 September 2000.

⁹⁹ Mark O'Neill, "Accused Smuggler Lai Changxing Profiled," *South China Morning Post*, 25 January 2000, p.15.

fat.”¹⁰⁰ Within the “red chamber” in Xiamen, Lai Changxing is even reported to have displayed a calligraphy scroll written by General Chi Haotian, vice-chairman of the Central Military Commission.¹⁰¹ Lai Changxing also traveled in a chauffeur-driven Mercedes-Benz with bullet-proof glass and a white military plate bearing the Chinese character *Jia* in red, which usually signifies that a vehicle is owned by the PLA General Staff Department.¹⁰²

Lai’s primary technique for developing closer ties with senior military officials, primarily in the General Staff Department and the Navy,¹⁰³ was to employ their children in his businesses. The head of the sales department for Fairwell City, the Fairwell Group’s huge real estate development in Xiamen, was reportedly the daughter of a high-ranking naval officer.¹⁰⁴ Different sources report that Admiral Liu Huaqing’s daughter and daughter-in-law were allegedly involved with Lai and were subsequently either arrested or allowed to flee the country,¹⁰⁵ despite Admiral Liu’s reported attempts to derail Zhu Rongji’s inquiry into Lai’s activities and later to protect both of his relatives from prosecution.¹⁰⁶ According to a book written by Huang Jie and published by Cosmos, a publishing house with reportedly close ties to Beijing, then-Vice Premier Zhu took the Yuanhua case and his evidence of military involvement to Admiral Liu Huaqing, who was then China’s top general and vice-chairman of the Central Military Commission, but was told to mind his own business.¹⁰⁷

Despite the direct leadership of China’s most senior leaders, however, the investigation has yielded few if any public indictments against PLA personnel. One casualty of the Yuanhua investigation was Major-General Ji Shengde, son of the late PRC diplomat Ji Pengfei and then-Director of the Intelligence Department of the General Staff Department. Prior to the Yuanhua scandal, General Ji had been accused of funneling \$300,000 to Liu Huaqing’s daughter, Liu Chaoying, who had subsequently passed the money to Johnny Chung for donations to the 1996 Clinton-Gore re-election effort, though Chung used most of the money for other things. While cleared of wrongdoing, Ji was transferred from the Second Department to a sideline position as Vice-President of the Academy of Military Sciences.¹⁰⁸ Shortly afterwards, personnel in the Second Department were linked to the Yuanhua smuggling case and Ji was called in for questioning.

¹⁰⁰ John Pomfret, “Chinese Tie Leaders to Smuggling; Party, Military Chiefs Among the Suspects,” *Washington Post*, 21 January 2000, p.A1.

¹⁰¹ “Dirty Linen,” *Straits Times*, 30 January 2000; Chen Xiaoping, “Effects of Yuanhua Case on China’s Anti-Corruption Campaign Viewed,” *South China Morning Post*, 15 December 2000.

¹⁰² Mark O’Neill, “Lai Changxing Says Spied on Taiwan, Hong Kong for PRC,” *South China Morning Post*, 01 December 2000.

¹⁰³ “Dirty Linen,” *Straits Times*, 30 January 2000.

¹⁰⁴ John Pomfret, “Chinese Tie Leaders to Smuggling; Party, Military Chiefs Among the Suspects,” *Washington Post*, 21 January 2000, p.A1.

¹⁰⁵ The latter is asserted in Willy Wo-Lap Lam, “Scandal’s Threat to Mandate of Heaven,” *South China Morning Post*, 26 January 2000.

¹⁰⁶ John Pomfret, “Chinese Tie Leaders to Smuggling; Party, Military Chiefs Among the Suspects,” *Washington Post*, 21 January 2000, p.A1; and Mark O’Neill, “Breaking Ranks in PLA, Inc.,” *South China Morning Post*, 31 January 2001.

¹⁰⁷ Huang Jie, *Si Xiao* [Fierce Smuggler], Hong Kong: Cosmos, 2000.

¹⁰⁸ “Ji Pengfei’s Son Casts Off Suspicion of Shielding Smuggling; Despite Having Met the ‘Two Requirements,’ It is Difficult for Him To Resume Post of Director of ‘Intelligence Department,’” *Ming Pao*, 19 May 2000, p.B15.

Early accusations asserted that Ji had received RMB30 million in bribes from Lai Changxing.¹⁰⁹ Contradictory initial reporting, however, suggested that Lai had unsuccessfully attempted to develop relations with Ji, offering lavish gifts of luxury automobiles that were refused. One report cleared Ji of wrongdoing, but placed blame on his former driver, who had used his connections with Ji and the Intelligence Department to develop a relationship with Lai Changxing. The driver and Lai had allegedly smuggled imported cars into China, with the driver providing military plates for the cars in return for RMB17 million in bribes.¹¹⁰

Later reporting, however, by a newspaper owned by the official New China News Agency, directly accused Ji of being a direct participant in corruption activities, including “embezzlement of public funds, bribe-taking, and dereliction of duty.”¹¹¹ Specifically, Ji was charged with embezzling \$20 million from an unnamed General Staff Department company that had engaged in unauthorized stock speculation, accepting RMB30 million in bribes from Lai Changxing and Yuanhua Group, and using his driver, frequently identified as Senior Colonel Yang Gaiqing,¹¹² to “accumulate money by unfair means in Hong Kong and abroad.”¹¹³ Other sources suggested that General Ji, as head of military intelligence, had access to large amounts of money for intelligence operations and control over the department’s front companies, and had siphoned money from these accounts as the companies went through divestiture in 1998.¹¹⁴

Ji’s case reportedly caused controversy within the Beijing government, centering on two issues: (1) whether the offspring of one of China’s revolutionary heroes could really be charged and convicted of corruption; and (2) whether the PLA was capable of policing itself. On the second issue, this official source was surprisingly frank about the Central Military Commission Discipline Inspection Commission’s failure to adequately investigate General Ji’s activities, and the necessity for Jiang Zemin to personally intervene in the situation and transfer the case to the Central Discipline Inspection Commission under the Party, who concluded the investigation in early July 2000.¹¹⁵ Ji was ultimately tried by a military court, but the case was put together by civilians, not PLA prosecutors.

On 13 October 2000, General Ji was convicted, and sentenced to fifteen years imprisonment for embezzling RMB200 million in public funds, including \$16 million from intelligence funds for foreign operations and RMB80 million from GSD (General Staff Department) companies in Beijing, Shenzhen, Xiamen, Dalian, and Hong Kong, during his tenure from 1988 to 1997 as

¹⁰⁹ *South China Morning Post*, 18 July 2000.

¹¹⁰ “Ji Pengfei’s Son Casts Off Suspicion of Shielding Smuggling; Despite Having Met the ‘Two Requirements,’ It is Difficult for Him To Resume Post of Director of ‘Intelligence Department’,” *Ming Pao*, 19 May 2000, p.B15.

¹¹¹ “Former Army Intelligence Head To Be Prosecuted For Corruption,” *Jingji cankao* [Economic Reference], 7 July 2000, No.1491, p.1.

¹¹² “Awaiting General Secretary Jiang’s Approval to Take Action,” *Tai Yang Pao*, 20 September 2000.

¹¹³ “Former Army Intelligence Head To Be Prosecuted For Corruption,” *Jingji cankao* [Economic Reference], 7 July 2000, No.1491, p.1.

¹¹⁴ Hsia Wen-su, “The Mysterious Background of Ji Shengde’s Case,” *Kai Fang*, 5 October 2000, No.166, pp.11-14.

¹¹⁵ “Former Army Intelligence Head To Be Prosecuted For Corruption,” *Jingji cankao* [Economic Reference], 7 July 2000, No.1491, p.1; and John Pomfret, “Beijing to Indict Ex-Army Spy Chief; Media Gives Case Unheard-Of Exposure,” *Washington Post*, 18 July 2000, p.A16.

head of the intelligence department.¹¹⁶ Importantly, there was no mention of the bribes from Lai Changxing. The sentence was widely perceived as relatively light when compared with comparable corruption cases, many of which resulted in execution (e.g., former National People's Congress Vice-Chairman Cheng Kejie and former Jiangxi Vice-Governor Hu Changqing). The suggested reasons for leniency were two-fold: (1) the direct intervention of Ji Pengfei's widow, Xu Hanbing, on behalf of her son; and (2) the fact that the public funds, the overseas properties and the foreign deposits "were all transferred back from overseas and handed over to the national treasury, and thus the actual losses were minimized."¹¹⁷ At the same time, interviews in Beijing confirm that Ji was to some extent the scapegoat for the corrupt activities of other senior General Staff Department intelligence officials, including General Xiong Guangkai, who for years had run liquor smuggling in Beijing and other domestic and foreign rackets.¹¹⁸

IV. Structural Origins of PLA Corruption

A. Structural privileges

The primary structural factor facilitating the rise of PLA corruption is the military's privileged access to the national infrastructure. In her discussion of Maoist-era corruption, Dreyer points out that the most serious incidents of military corruption occurred in the General Logistics Department, since this department had the easiest access to large numbers of long-distance vehicles, warehouses, and inventories of saleable goods.¹¹⁹ This pattern continues to the present day, where privileged PLA access to transport, industrial base, natural resources, prosecutorial immunity, and China's borders offers structural advantages beyond the means of any of its legal or illegal competitors. Additionally, the PLA until 1998 was responsible for policing its own corruption, which sheltered illegal activities behind the veil of national security. Examples of corruption in each of these privileged areas are outlined below.

1. Transportation

One of the most important areas of infrastructure exploited by the PLA is the national transportation network. For example, the PLA has long enjoyed priority access to the nation's badly overburdened railway system through the Military Transportation Office of the Ministry of Railways.¹²⁰ Apart from rail, the military has an enormous fleet of trucks, ships, and air transport. Internal discussions before divestiture suggested that military transport were diverted to transport legal and illegal goods, military warehouses were used for storage, and soldiers were employed to guard the merchandise.¹²¹ In one case, the Air Force punished a number of officers

¹¹⁶ Yueh Shan, "Ji Pengfei's Son Unexpectedly Given Lenient Punishment for Embezzling RMB220 Million in Public Funds," *Cheng Ming*, 1 November 2000.

¹¹⁷ Yueh Shan, "Ji Pengfei's Son Unexpectedly Given Lenient Punishment for Embezzling RMB220 Million in Public Funds," *Cheng Ming*, 1 November 2000.

¹¹⁸ Interviews with Western defense attaches, Beijing, 1995-2003.

¹¹⁹ Dreyer, p.12.

¹²⁰ Li Mingli, "Crisis of the Military's Participation in Economic Activities," *Hsin pao*, 22 November 1993, p.8, in *FBIS*, 3 December 1993, pp.32-33.

¹²¹ Lin Chung-hsing, "Regularization of Military Legislative System: Legal Bureau of Central Military Commission Starts Functioning," *Junshi jingji yanjiu*, 1993, pp.34-36; and Christian Virant, "Corruption

who used military vehicles to transport goods illegally.¹²² The most famous case of illegal PLA use of transport, however, was the 1985 scandal involving the smuggling of foreign automobiles, vans, television sets, VCRs, and motorcycles on Navy ships into the duty-free port of Hainan.¹²³

Military transport was especially attractive to both military and non-military entrepreneurs because vehicles with military license plates are not subject to border checkpoints and customs.¹²⁴ According to the Ministry of Public Security circular entitled "Circulation on Stopping the Collection of Tolls on Military Vehicles and on Ensuring the Smooth Passage of Military Vehicles," public security cadres and policemen were strictly forbidden to collect tolls or other fees on military vehicles on highways (including bridges, tunnels, and intersections of roads leading into cities), and at public security, border defense, and other checkpoints.¹²⁵ Given the proliferation of intra-provincial and intra-country trade protectionism in China,¹²⁶ this exemption was highly valued, especially by newly-rich entrepreneurs who used the illegally-obtained military plates to travel without official interference.¹²⁷ Examples abound of the illegal leasing or sale of license plates. In 1991, Lieutenant Commander He Yunchuan, a naval unit truck team leader nicknamed the "Truck Tiger," was arrested for accepting RMB370,000 in bribes for the illegal leasing of license plates from the trucks under his command.¹²⁸ In another instance, robbers reportedly used a stolen car with Air Force license plates to make their getaway after stealing 69 antiques from the Kaifang Museum.¹²⁹

In response to the PLA's commercial exploitation of its privileged access to transportation infrastructure, the Central Military Commission tried repeatedly to transfer non-essential transport facilities to civilian control, but the vast majority of key infrastructure hubs are still under PLA management.¹³⁰ Likewise, the military leadership tried to replace the PLA's license plates on 1 May 1993 because their use had gotten so out of control that they were being used by military gangs, but new forgeries appeared even before all legitimate units received their

in the PLA," *Eastern Express*, Hong Kong, 1 May 1996, p.1, in *FBIS-CHI-96-025*, 1 May 1996, pp.35-36.

¹²² See "Military Commission Punishes Economic Offenders," *Xinhua*, 28 February 1989, in *FBIS-CHI-89-039*, 1 March 1989, p.37.

¹²³ *FBIS*, 6 August 1985, pp.1-8.

¹²⁴ "Ministry of Public Security Issues All-Points Circular Clearly Prohibiting Collection of Tolls from Military Vehicles," *Renmin gongan bao*, 6 December 1994, p.1, in *FBIS*, 2 March 1995, p.29. For further discussion of the use of military license plates in corruption, see "Army Cracks Down on Fake License Plates," *Beijing Central Television Program*, 1 May 1995, in *FBIS*, 2 May 1995, p.31; Chang Jou-sang, "Expose the Phenomenon of Fake Military Vehicles in Guangdong," *Ta kung pao*, 24 February 1994, p.8, in *FBIS*, 5 April 1994, pp.44-45.

¹²⁵ "Ministry of Public Security Issues All-Points Circular Clearly Prohibiting Collection of Tolls from Military Vehicles," *Renmin gongan bao*, 6 December 1994, p.1, in *FBIS*, 2 March 1995, p.29.

¹²⁶ See Andrew Wedeman, "Bamboo Walls and Brick Ramparts," Ph.D. dissertation, University of California-Los Angeles, 1995).

¹²⁷ Confirmed during interviews in Beijing, February-March 1997.

¹²⁸ "Lieutenant Commander He Yunchuan Arrested for Accepting Bribes Amounting to 370,000 Yuan," *Ming pao*, 6 September 1991, p.9, in *FBIS*, 11 September 1991, pp.31-32. "Tiger" is a common nickname attributed to major organized crime figures.

¹²⁹ John Kohut, "Military License Plate Change Under Way," *South China Morning Post*, 24 June 1993, p.6, in *FBIS*, 24 June 1993, p.33.

¹³⁰ Willy Wo-Lap Lam, "Army to Reduce Business Activity 'To Curb Corruption'," *South China Morning Post*, 9 December 1993, pp.1,11, in *FBIS*, 9 December 1993, pp.20-21.

replacements.¹³¹ More than 1000 cases of military impostors and fake military license plates in the Guangzhou Military Region and 1012 cases of fake military vehicles and license plates in the Beijing Military Region were investigated in the first 6 months of 1995 alone.¹³² In 1996, more than 4000 stolen plates were recovered nationwide, along with 5000 false plates and 5000 forged military passes.¹³³ Undaunted by their failure to curb reproduction of the 1993 license plates, the State Council and the Central Military Commission jointly issued another notice on June 18, 1997 that military vehicles would change to a new license plate.¹³⁴ According to the report, the new plates would be produced by a technology that made forging difficult. At the same time, military plates were strictly limited to vehicles for military use only. Nonetheless, as shown in the Yuanhua case, the abuse of PLA license plates continued after divestiture.

2. *Natural Resources and Raw Materials*

Another structural advantage enjoyed by the PLA was privileged access to cheap natural resources and raw materials. Like most countries (including the US), the dictates of national security demand that the military have special access to essential products like petroleum or rare metals at lower, subsidized prices. This circumstance is open to exploitation, since many of these materials can be sold for a higher price on the free market.¹³⁵ Indeed, military units engaged in production have historically taken advantage of these differences, which the military leadership called "loopholes of reform."¹³⁶ For example, one account describes a case of profiteering in which ninety-three military personnel in Fujian Province were involved in buying 858 tons of petroleum at a reduced military rate and then reselling it at market prices.¹³⁷ Nine officers of rank at or above the regiment level were involved, including a deputy division commander and a division chief of staff. Ten persons were paid bribes of more 10,000 yuan, including officials from the Ministry of Petroleum. A second similar account details a military profiteering case that involved more than 100 tons of copper and 25,000 yuan.¹³⁸ This type of profiteering has even extended to consumer goods. In one case, a high-ranking officer bought 599 cartons of top-grade cigarettes at state prices, then sold them to individual households at market prices, reaping a

¹³¹ See Chen Zhonggui and Chen Hui, "Beijing Military Region Fights Army Impersonators," *Xinhua Domestic Service*, 29 June 1995, in *FBIS-CHI-95-133*, 12 July 1995, pp.48-49; and *Jiefangjun bao*, 9 April 1993. Also "Shenzhen Strengthens Management Over Military Vehicles," *Ta kung pao*, 13 April 1994, p.2, in *FBIS*, 5 May 1994, p.67.

¹³² Cheung, "Can PLA Inc. Be Tamed?" p.45.

¹³³ "Joint Operations to Root Out Bogus Military Vans," *Zhongguo xinwen she*, 20 August 1996, in *FBIS-CHI-96-162*, 20 August 1996.

¹³⁴ "New License Plates for Military Vehicles," *China Focus*, 1 April 1997, p.5.

¹³⁵ Dreyer, p.11.

¹³⁶ "Economic Crimes in the Military," pp.37-39; "The Enlarged Meeting of the Standing Committee of the Discipline Inspection Commission of the Central Military Commission Emphasizes Party Discipline," *Renmin ribao*, 1 October 1988, p.2, in *FBIS*, 4 October 1988, p.24; and "Central Military Commission on Corruption," *Xinhua Domestic Service*, 2 April 1988, in *FBIS-CHI-88-064*, 4 April 1988, p.59.

¹³⁷ Fujian Cracks Down on a Case of Reselling Oil For Profit by Military Personnel," *Zhongguo tongxun she*, 11 July 1989, in *FBIS*, 13 July 1989, p.46.

¹³⁸ Teng Yuzhong and Cao Ruilin, "The Whole Army Makes Marked Achievements in Implementing the 'Circular' Issued by the Supreme People's Court and the Supreme People's Procuratorate," *Jiefangjun bao*, 23 November 1989, p.3, in *FBIS*, 19 December 1989, pp.27-28.

profit of RMB4000.¹³⁹ In another case, a company-level unit took a quantity of soybeans, purchased from national stores at RMB0.12 per jin, and produced beancurd, which it then "sold" to the company's kitchens for market price of RMB5 per jin.¹⁴⁰

3. *Prosecutorial Immunity*

The third structural advantage enjoyed by the PLA until recently was relative immunity to prosecution. All investigations, arrests, detentions, and preliminary trials of economic criminals were historically handled by the Security Department of the PLA General Political Department.¹⁴¹ The full trials were conducted internally by the military procurate, which is subject to the strictest military secrecy.¹⁴² Apart from hampering outside analysis of the subject, these restrictions also served to protect the military from civilian scrutiny and political campaigns. As a result, corrupt officers who were exposed by the authorities were not always punished, but instead often received only warnings within the party context.¹⁴³ Nor was the military justice system free of corruption. The president of the PLA Military Court, Hou Gu, was himself dismissed in 1993 for corrupt behavior.¹⁴⁴

One interesting exception to the general immunity of military officers from prosecution was the case of Ning Yinghai, a high-ranking PLA officer tried and imprisoned for corruption. Prior to his conviction in the summer of 1988, Ning Yinghai was the Secretary-General of the Chengdu Military Region Political Department, and was therefore charged with overseeing administrative and promotion work.¹⁴⁵ Ning was convicted of "corruption, speculation, and dallying with women," and sentenced to six and a half years imprisonment.

While on the surface this may seem to be simply the escalating response of the military to an endemic problem, the reality may be far more complex. Official exposés of military corruption, especially incidents at highest levels, must be carefully scrutinized.¹⁴⁶ Referring to the Soviet Union, Staats describes a familiar pattern of politically-motivated prosecutions, where primarily lower-level corruption is exposed to discredit political opponents. This is tactically analogous to the factional behavior in China described by Dittmer and others, in which the crimes of high-level officials are publicly pursued only when the targeted official's patronage network has fallen apart or his flanks are otherwise vulnerable.¹⁴⁷ Østergaard deftly exposes the dynamic at work:

¹³⁹ This account is taken from "Ning Yinghai, Secretary-General of the Chengdu Military Region Political Department, Sentenced to Imprisonment for Corruption, Speculation, and Dallying With Women," *Jiefangjun bao*, 7 October 1988, p.1, in *FBIS*, 24 October 1988, pp.32-33.

¹⁴⁰ *Jiefangjun bao*, 5 May 1990, p.3.

¹⁴¹ "PLA Security to Handle Army's Criminal Cases," *Xinhua Domestic Service*, 29 December 1993, in *FBIS-CHI-94-004*, 6 January 1994, p.25.

¹⁴² See *Dangdai jiancha*, pp.371-375.

¹⁴³ For examples of this phenomena, see "Guangzhou Military Region Notice Points Out: Division Leaders Resold Autos for Profit; Instructor Murdered," pp.W1-2.

¹⁴⁴ "Regional Commanders Slated for Removal," p.20.

¹⁴⁵ This account is taken from "Ning Yinghai, Secretary-General of the Chengdu Military Region Political Department, Sentenced to Imprisonment for Corruption, Speculation, and Dallying With Women," *Jiefangjun bao*, 7 October 1988, p.1, in *FBIS*, 24 October 1988, pp.32-33.

¹⁴⁶ Staats, "Corruption in the Soviet System," p.40. See also Willy Wo-Lap Lam, "'Extreme Caution' in PLA Corruption Reporting," *South China Morning Post*, 29 December 1993, p.8, in *FBIS*, 29 December 1993, pp.34-35.

¹⁴⁷ Lowell Dittmer, "Chinese Informal Politics," *The China Journal*, No.34, July 1995, pp.1-34.

A definite problem lies in the possible bias arising from the use of anti-corruption measures against political opponents, and in the political selection of cases to be published. Only a few cases are published out of the total universe of those treated, and one cannot be sure of the criteria used. Are they typical ones, which the authorities want to warn about and to increase vigilance against? Are they the ones that people are most disgusted with, serving a 'public execution function'? Are they chosen to protect higher levels and defend party supremacy?¹⁴⁸

In the case of Ning Yinghai, the editorial exposing his wrongdoing was explicit about the educational value of the conviction, commanding organs at all levels of the army to "take warning from Ning Yinghai's case."¹⁴⁹ In this respect, the facts of the case are less important than the political meaning of the arrest.

During the divestiture process, the PLA for the first time was placed under the investigative and prosecutorial authority of non-military personnel, much to the chagrin of those officers accused of corruption and profiteering. Led by State Councilor Wu Yi, units belonging to the General Administration of Customs, operating with support from the Central Discipline Inspection Commission (not the Central Military Commission CDIC unit), combed through the financial records of the enterprise system and conducted an investigation of individual cases.¹⁵⁰ As discussed above, the CDIC did not shirk from accusing senior military officers of financial malfeasance, though most of the accused were not publicly shamed or executed for their crimes. This lenience suggests that the civilian leadership still perceived value in maintaining positive relations with the military during a difficult and contentious process.

4. Borders

Finally, because of its national security responsibilities, the PLA has privileged access to China's borders. As a result, the military was both directly and indirectly involved in smuggling. Alleged direct PLA involvement has taken the form of high-seas piracy, drug-trafficking from the Golden Triangle to Hong Kong, and other similar illegal dealings.¹⁵¹ In one well-reported case, the Logistics Department of the North Sea Fleet was investigated for using their facilities as a port of entry for smuggled South Korean automobiles.¹⁵² In terms of land border trade, there were reportedly large car parks of illegally imported vehicles along the Vietnam-China border, which were smuggled across by the line by the Vietnamese and Chinese militaries prior to divestiture.¹⁵³ In a similar instance, 10 military officers from the 27th Group Army were

¹⁴⁸ Østergaard, p.221.

¹⁴⁹ The Chinese proverb "*shaji xiahou*" [kill the chicken to frighten the monkey] is particularly appropriate in this case.

¹⁵⁰ "Nationwide Major Anti-Smuggling Campaign," *Ming Pao*, 28 September 1998, p.A11.

¹⁵¹ Dreyer, p.11. See also "Military Resists Toeing Party Line," *South China Morning Post Weekly*, 10-11 July 1993. For alleged accounts of piracy, see Lu Di's article in *Front Line Monthly*, April 1994, pp.44-45.

¹⁵² Willy Wo-Lap Lam, "Beijing Said to Crack Down on Army, Police Corruption," *South China Morning Post*, 10 September 1993, p.8, in *FBIS-CHI-93-174*, 10 September 1993, p.35; "Military Commission Takes Low-Key Approach to Income Disparities Between Servicemen and Civilians to Avoid Provoking Discontent," *Ming pao*, 16 July 1993, p.10, in *FBIS-CHI-93-147*, 3 August 1993, pp.16-17; and Li Chu, "Chi Haotian Personally Handles Smuggling Cases in the Military," *Zheng ming*, No.191, 1 September 1993, pp.20-21, in *FBIS-CHI-93-174*, 10 September 1993, pp.35-36.

¹⁵³ Interview in Beijing with knowledgeable PLA official, February 1997.

investigated and charged with smuggling high-grade consumer goods from Laoshan, a Chinese border town, into Vietnam for high profits.¹⁵⁴ Finally, alleged drug smuggling by PLA units, especially PAP units in SW China near the Golden Triangle, vexed both Chinese officials and drug enforcement agents from consumer countries before the 1998 divestiture announcement and the subsequent anti-corruption campaign.¹⁵⁵

B. Military participation in the economy

During the PLA's commercial period (1978-98), these structural facilitators of corruption were exacerbated by the military's growing participation in commercial activities. Beginning in the early 1980s, this increasing participation in the economy quickly expanded into a multi-billion dollar entrepreneurial empire, involving everything from military equipment to pharmaceuticals. The Chinese military's participation in the economy in turn exposed the rank-and-file to the accompanying "unhealthy tendencies" of reform and provided ready-made opportunities for corrupt activities.¹⁵⁶ Also, participation in economic activities made it easier for military personnel to become involved in corruption, both by blurring the previously clear line between military and entrepreneurial operations and providing legal cover for illegal activities.¹⁵⁷

Furthermore, the vaguely defined limits of military commerce throughout the first fifteen years of PLA commercialism allowed many units to define for themselves the boundaries of improper behavior; the military leadership tacitly legitimized even questionable activity by accepting the profits it produced. This conclusion is supported by the internal writings of the Chinese civilian and military leadership. Although the government's public discussion of military corruption tends to focus on Marxist rhetorical code words like "peaceful evolution" and the "machinations of foreign and "counterrevolutionary elements," internal discussion reveals a much more pragmatic and level-headed debate over the structural causes of and countermeasures for military corruption.¹⁵⁸ In one section of an internal military study on the subject, the authors draw direct causal links between corruption and the establishment of the military enterprise system, focusing on the lack of effective control of these enterprises by their managing military units.¹⁵⁹ Overall, this source suggests that the civilian and military leaderships are well aware of the structural origins of PLA corruption, despite their public comments to the contrary.¹⁶⁰

¹⁵⁴ See "CPC Gets Rid of Dissidents in the Army," *Ming pao*, 27 November 1989, p.8, in *FBIS-CHI-89-226*, 27 November 1989, p.15.

¹⁵⁵ Interview with U.S. Drug Enforcement Agency official in Beijing, February 1997.

¹⁵⁶ "Economic Crimes in the Military," pp.37-39.

¹⁵⁷ The PLA has been involved in economic production since the 1920s, when it was forced to maintain its own farms and ordnance factories (this infrastructure was the foundation of China's nascent defense-industrial complex after Liberation in 1949). The PLA continued to run its own farms after 1949, and was a key provider of labor for China's large infrastructure projects, building hundreds of bridges, dams, airports, railroads, etc.... While these activities still continue in the post-Mao period, there is now an emphasis on profit that was unthinkable during the Maoist era. In addition, PLA participation in the economy is far larger than before, and includes a much wider variety of enterprises. See "A New Problem, Which We Should Bear in Mind and Guard Against," *Junshi jingji yanjiu*, September 1989, pp.50-51.

¹⁵⁸ This discussion is drawn largely from Dai Zhenlin and Zhao Xin, *Junren fanzui yufang qianlun* [An elementary discussion of military economic crime prevention], (Beijing: *Jiefangjun chubanshe, junnei faxing*, 1994). "Peaceful evolution" is discussed on page 98, while the influence of counterrevolutionary and foreign elements can be found on pages. 99-107.

¹⁵⁹ *Ibid.*, pp.129,130-31.

¹⁶⁰ *Ibid.*

V. Consequences of PLA Corruption

Rejecting the rigidity of the moralist school, Michael Johnston and others argue that corruption is not inherently detrimental.¹⁶¹ These "revisionists" point to possible benefits, suggesting that corruption may in fact be "broadly functional to a system's survival and development."¹⁶² For example, corruption can ease supply and demand bottlenecks in under-rationalized economies by providing alternative means of distribution and allocation. Also, newly wealthy but politically disenfranchised groups can use bribery as a "leveler," allowing them to buy the political power that has heretofore been denied. Some proponents of this approach assert that corruption may even "produce de facto policies more effective than those emerging from legitimate channels."¹⁶³ Thus, Johnston is able to distinguish what he terms "integrative corruption," which "links people and groups into lasting networks of exchange and shared interest," and "disintegrative corruption," which does not.

In Maoist China and other pre-1989 Leninist systems, corruption had (in this view) both economic and political benefits. As Myers writes, "corruption was a means of overcoming bureaucratic bottlenecks in the economy and therefore had a beneficial effect in facilitating the flow of goods and services in the economy."¹⁶⁴ In fact, the facilitating aspects of corruption may have become so integral to the Chinese and Soviet economies that the government was "ambivalent" about them.¹⁶⁵ Corruption in Leninist systems also permitted lower party and government officials to moderate output goals, procure resources, and otherwise collaborate in order to insulate one another and their subordinates from the pressures exerted by their superiors.¹⁶⁶ In China, this phenomenon was known as "going through the back door" [*zou houmen*] and included favoritism in selecting cadres, promotion, transfers, party recruitment, university appointments, demobilization, housing assignments, and home leave.¹⁶⁷ At the same time, of course, corruption exacerbated problems throughout the system, helping to foster a cynical malaise among the populace and drawing ever sharper distinctions between the *nomenklatura* and non-elites.

In the post-Mao reform era in China, corruption potentially provides a slightly different mix of political and economic benefits, such as lubricating an administrative apparatus resistant to change and assuring that rapid transformation does not devastate the system entirely.¹⁶⁸ Corruption could also provide a perverse form of capital formation for entrepreneurs, by allowing potential investment funds to circulate through the economy.¹⁶⁹ On the other hand, corruption in modernizing systems could lead to capital outflows (to Swiss banks), investment

¹⁶¹ Michael Johnston, "The Political Consequences of Corruption: A Reassessment," *Comparative Politics*, July 1986, p.464.

¹⁶² Arnold Heidenheimer, "Corruption and Reform: An Editorial Essay," *Corruption and Reform*, Vol.1, 1986, p.3.

¹⁶³ Johnston, p.461-62. See also David Bayley, p.944.

¹⁶⁴ Myers, p.203. See also Nye, p.968.

¹⁶⁵ Grossman, p.37.

¹⁶⁶ Staats, p.46.

¹⁶⁷ "A New Serviceman in Unit 38396 Says: I Found It Tough," *Jiefangjun bao*, 15 March 1986; "Yunnan Military District Corrects Unhealthy Trends," *Kunming Yunnan Provincial Service*, 11 June 1986, in *FBIS*, 18 June 1986, p.Q4; "Meeting of the DIC/CMC," p.W1; "Lax Discipline, Bribery, Corruption in PLA Exposed," *Ming pao*, 25 June 1986, p.5, in *JPRS-CPS-86-029*, 11 April 1986, pp.90-91.

¹⁶⁸ Ma, p.47; and Goodman, pp.2-3

¹⁶⁹ Nye, pp.967-68.

distortions, wasted skills, instability, reduction of administrative capacity and loss of legitimacy.¹⁷⁰

A. Consequences of PLA Corruption for the Chinese Military

Within the narrow confines of the PLA as an institution, however, the evidence suggests that corruption has had few if any appreciable benefits for either the military itself and instead threatens mainly negative consequences. In this respect, the PLA can be differentiated from its civilian counterparts, which can draw limited benefits from corruption as outlined above. This starker view of PLA corruption contradicts that of Goodman and Dreyer, who assert that PLA corruption is a mixed bag of harmful and indirectly beneficial trends.¹⁷¹ In particular, Dreyer points to capital formation, entrepreneurialism, system integration, administrative expansion, and enhanced war-fighting capabilities as beneficial effects of corruption.¹⁷² This argument appears to reflect a fundamental error, confusing the previous benefits of *PLA participation in the economy* with benefits from military *corruption*. While the military economy did indeed provide many significant benefits to the PLA, especially the amelioration of “quality of life” problems brought on by the decline in real budget expenditures, it also potentially spawned corruption among both officers and enlisted personnel involved in unit-level enterprises. Goodman, in response, argues that there is nothing unique about PLA corruption.¹⁷³ But while there is nothing “structurally different” about military corruption, especially when compared with corruption in the Chinese party and government apparatus, it is important to recognize the negative *effects* of corruption upon the military organization itself.

To understand these potentially negative effects, it is first necessary to understand some elementary notions of military sociology. Borrowing from Durkheim, the “mechanical solidarity” of military life means that the members of the armed forces are inculcated with a “more or less organized *ensemble* of the beliefs and the sentiments common to all the members of the group.”¹⁷⁴ This solidarity is necessary because the “army differs in function from the society that surrounds it and this function requires that it be separated and segregated.”¹⁷⁵ It requires a common uniform, and this immediately distinguishes it from the civilian masses. It requires separate housing, in purely military quarters, the barracks. It demands a systematized nomadism, moving from one garrison town to another. It demands a separate code of morals and manners from that of the civilian population, so that the normal freedoms of life—to take leave, to change one's employment, in some cases even to marry—are exercised only under surveillance and tutelage, and by permission. All this tends to enhance military solidarity by making the military life self-contained. Firms and bureaucracies may also possess the above five characteristics, but they are voluntary bodies, the sanctions for indiscipline are feeble, and there is no segregation or special code of manners or rules that has to be obeyed. Therefore, the military organization is sociologically distinct from its civilian counterparts and the effects of corruption upon the military organization must be treated differently.

¹⁷⁰ Ibid., pp.970-972.

¹⁷¹ Dreyer, “Corruption in the People's Republic of China”; and David Goodman, “Corruption in the People's Liberation Army.”

¹⁷² Dreyer, pp.16-18.

¹⁷³ Goodman, p.3.

¹⁷⁴ Emile Durkheim, *La Division du Travail. Social*, (Paris, 1960), p.99.

¹⁷⁵ The remainder of this discussion is draws heavily from Finer, p.9.

For these reasons, corruption arguably had a negative feedback effect upon the PLA, eroding (1) centralized command, (2) hierarchy, (3) discipline, (4) communication, and (5) *esprit de corps*.¹⁷⁶ Military discipline, by definition, relies on strict hierarchy and the chain of command. Corruption is inherently harmful to discipline, however, because the corrupt behavior of fellow and superior officers could lower the level of solidarity/morale/*esprit de corps* among the rank-and-file, and also undermines the common notions of self-sacrifice and duty.¹⁷⁷ If an average soldier sees his commanding officer cashing in by breaking the rules, there is little incentive (other than naked coercion) for the soldier himself to adhere to the rules. Once naked coercion is the only unifying force of discipline, then military professionalism suffers and combat effectiveness is reduced.¹⁷⁸

A decline in discipline, morale, and cohesiveness are not the only potential negative *consequences* of military corruption. Corruption can undercut public faith in the military as an institution of national defense.¹⁷⁹ Corruption can divert public resources (such as state defense expenditures) for private purposes, wasting precious government outlays needed for force modernization and lowering the already tenuous living standard of the rank-and-file.¹⁸⁰ We have seen some evidence of this in the reduced training regimen of some lower-level units, a situation that can be partly blamed on the diversion of centrally allocated funds.¹⁸¹ Corruption can raise the price of administration and lower administrative capacity within the military, while failures to curb corruption exact costs in non-achievement.¹⁸² For example, PLA enterprises that evaded taxes reduced the pool of military operating funds and forced the army's auditing organs to expend more manpower in tracking down the funds. Corruption, by disrupting hierarchy and cohesiveness, can in turn weaken combat effectiveness in "defending the motherland's territories."¹⁸³ Finally, military corruption can even undermine the PLA's participation in the economy, which is so essential to the financial solvency of the military, by draining necessary investment funds from the enterprises.¹⁸⁴

¹⁷⁶ Finer, pp.6-22; and Huntington, *Soldier and the State*, pp.7-97.

¹⁷⁷ Janowitz, *Sociology and the Military Establishment*, p.86.

¹⁷⁸ *Ibid.*, p.87.

¹⁷⁹ While public opinion about military corruption is difficult, if not impossible, to find, interviews with academics, entrepreneurs, and children of high-ranking cadres in Beijing suggest that members of the elite are concerned about the effect of corruption upon the reputation of the PLA. Interviews, August-September 1996, February 1997, February 1998.

¹⁸⁰ On the other hand, a significant percentage of PLA corruption does not involve state expenditures, since it is derived from "created value."

¹⁸¹ Wang Yihua, p.39.

¹⁸² For a more detailed discussion on the effect of corruption upon administration costs, see Banfield, p.589.

¹⁸³ "Enhance the Concept of Acting in Accordance With Rules and Regulations," *Jiefangjun bao*, 11 March 1988, p.1, in *FBIS*, 23 March 1988, pp.21-22. There is some deductive evidence of corruption affecting the fighting effectiveness of the PLA, primarily via complaints about the lack of funds for training. In at least one article, it is implied that corruption is partly to blame for the lack of funds. Wang Yihua, p.40.

¹⁸⁴ See "Over 40 PLA Officers Punished for Corruption," *Hongkong Standard*, 3 April 1990, p.6, in *FBIS*, 3 April 1990, pp.39-40.

B. Consequences of PLA Corruption for the Chinese Economy

Likewise, PLA corruption has had few appreciable benefits for the Chinese system as a whole, though individual Chinese consumers have certainly benefited from illegal PLA services or contraband goods obtained through PLA smuggling. PLA services, such as telecommunications access through excess military communications bandwidth, were generally cheaper than similar services from state providers or their market competitors. Similarly, the automobiles and oil and other products smuggled by PLA units were considerably cheaper than their legal counterparts, since they did not include high tariff duties. In both cases, there were also risks borne by the consumer (such as the absence of legal recourse if paid-for services were not delivered, or forfeiture of contraband), but in fact these risks were frankly not much higher than trying to conduct business with legitimate players.

For the system, however, PLA corruption, especially during the 1980s and early 1990s, had mainly negative consequences. For example, corruption exacerbated and extended the distortions of the two-track price system of the initial reform era. As discussed above, the PLA enjoyed privileged access to subsidized raw materials below market costs, which military profiteers then sold on the black market, undercutting the government's attempts to manage price controls and retarding the transition of the Chinese economy from the plan to the market. This activity skewed resource allocation in ways that damaged growth and investment in certain key sectors.¹⁸⁵ In addition, PLA smuggling depressed customs receipts (tariffs and duties) and tax revenue (licenses, fees, tolls on highways), which reduced central and local governmental resources for social services and infrastructure. In 1999, customs income rose more than 40 percent, thanks almost entirely to the crackdown on PLA smuggling, and central budget deficit spending leveled off for the first time in a decade. These two examples alone highlight the substantial draining effect of PLA corruption on the Chinese economy, and the corresponding benefit of their curtailment.

VI. Conclusion

While Chinese military corruption, like the corruption in other Chinese state sectors, has structural origins, the consequences of military corruption are almost entirely negative. Apart from the limited benefit a unit might receive from engaging in collective corruption to benefit their living standard, military corruption has provided few of the appreciable benefits that corruption can offer non-military systems, such as easing systemic irrationalities in supply and demand. Instead, corruption in the PLA might serve eventually to undermine the central ethos of the organization, eroding its legitimacy for both internal and external audiences.

Ironically, the profusion of corruption may hold the key to its solution. Many scholars, such as Staats, have argued that corruption itself may breed anti-corruption norms:

. . . even the periodic exposure of corruption scandals and the efforts to combat corruption may, in fact, serve to strengthen overall values. . . . Social norms usually emerge as an abstract synthesis of the repeatedly expressed sentiments of the community regarding a given type of behavior. Reiterated group censure of a given act

¹⁸⁵ The author would like to thank Tony Lanyi for this insight.

of deviation sharpens the authority of the violated norms and defines more clearly the boundaries of acceptable behavior.¹⁸⁶

There has been a clear public groundswell in China against the rise of official corruption, as seen in the substantive content of the Tiananmen demonstrations in 1989 and the increasing aggressiveness of anti-corruption campaigns in the late 1990s and early 2000s. The seriousness of this effort in the PLA is evidenced by the dramatic divestiture announcement in 1998, which was prompted by reports of rampant, even brazen PLA smuggling. Since then, PLA corruption, publicly manifest in the Yuanhua case and the trial of Ji Shengde, has continued to be the subject of intense discipline investigations, and the opportunities for corruption have been reduced thanks to the withdrawal of the PLA from commercial activities.

Nonetheless, a certain base level of corruption should be expected to continue, as PLA personnel exploit their authority for collective or personal gain. This instinct has been reinforced by the persistent gap in standards of living between military personnel and the larger Chinese population, despite dramatic increases in military pay since 1999. Overall, however, the increasing professionalism of the shrinking PLA makes such behavior stand out in ever-sharper relief, and it is possible that tainted officers would not survive the promotion race for the smaller set of downsized billets. As a result, corruption in the PLA appears to have transitioned from a major, debilitating problem in the 1980s and 1990s to a more manageable discipline issue in the new century.

¹⁸⁶ Staats, p.47.