CSIS-Hills Governance Center
at Tsinghua University in Beijing, China

“Measuring Corruption and increasing Corruption Awareness in China”

Project Report
August 2009

Presented to the

Stuart Family Foundation

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Overview

In October 2006, the Stuart Family Foundation provided a grant to the Hills Program on Governance at the Center for Strategic and International Studies for a two-part program on corruption in China. The first part funded an initial, pilot attempt to devise “a new metric” of corruption based on “objective” rather than “subjective” measures or indicators, and to test the metric in 3-5 major cities in different regions. By way of background, the most prominent index of corruption, by Transparency International, asks survey respondents in 180 countries—primarily experts and business people, both foreign and residents—their perceptions of corruption. Other, less-well-known measures also depend primarily on perceptions. However, perceptions may not be accurate, and they almost always trail actual events, sometimes providing better scores than deserved for a country in which corruption is increasing, but sometimes providing worse scores for a country in which corruption is diminishing. Chinese officials have been concerned that China’s anti-corruption measures may not be accurately reflected in indices based on perceptions. At least as important, a more tightly calibrated, and comparative, index would allow reformers to target their energies on the right cities and municipal functions. Indeed, the purpose of the index is not primarily to point fingers but rather to support reform efforts.

The second part of the grant funded a new curriculum for colleges and universities, designed to include case studies. The traditional pedagogy in China is primarily based on readings and lectures. Students take copious notes on each and exams test the students’ knowledge of the readings and lectures. The introduction of case studies to augment and illuminate—or challenge—the readings would allow for more student analysis and discussion. They would also “better equip students to understand and cope with the governance problems in China and elsewhere.” The grant provided for the preparation of such case studies, for the preparation of a class syllabus, and for the dissemination of these materials to faculty members teaching about corruption.

The grant work was undertaken jointly by the Hills Program on Governance at Tsinghua University (under the direction of its executive director, Professor Cheng Wenhao) and the CSIS Hills Program on Governance in Washington (especially by Professor Michael Johnston of Colgate University and Susan Rose-Ackerman of Yale University, two members of its Academic Council). Professor Cheng managed the design and implementation of a public survey on corruption, designed the syllabus, and drafted the case studies. Professor Johnston advised on the index component, and Professor Rose-Ackerman advised on the curriculum component.

Part 1: The municipal corruption index.

Based on the results of two earlier pilot surveys, the Tsinghua Center conducted a survey of residents and business people in five cities (Beijing, Shanghai, Shenzhen, Chengdu, and Changsha) between September and November 2008. It has provided useful new evidence on business/bureaucracy interactions at the municipal level in China. The data represent a baseline measurement that could, if repeated over time, allow
innovative new estimates of specific vulnerabilities to corruption, as well as of other administrative problems, based on answers to such “objective” questions as: the length of time it took to process a business license application (divided by the various application steps required); whether any goods or services were provided to local party or government agencies (and, if so, what kinds and in what amounts); the amount of actual working time spent dealing with government officials; the kinds of tax and related fees that were paid; and whether bribes were demanded and/or paid (and if so how much and under what conditions). The results were compared from one city to the others.

The approach is indirect, in part due to the suspicions of public surveys and the fear that honest answers will be tracked to the respondents who would be vulnerable to prosecutions or other sanctions. Instead of asking direct questions about corruption, the respondents were asked about the process of interaction with government officials: how many days or weeks or months did it take you to get a business license? How much did it cost and how long did it take to register your property? to confirm the company’s name? to establish a bank account?

The value of these data is relative (city-to-city) rather than absolute and more useful over time than as a one-shot effort. How do the data from one city relate to the data from another? How do the data from a city compare from one year to the next? How much divergence is there from the mean? Is there an explanation for the variation from city to city and year to year? Or do the variations expose longer and more cumbersome procedures from place to place and time to time, with accompanying opportunities for corruption….and the likelihood of actual corruption? Underlying these issues is a commonsense notion: cumbersome, complicated procedures might well reflect the effects of past corruption, in which delays and additional requirements were---and perhaps still are---used to extract bribe payments. They also shed light on current incentives sustaining possible corruption, because if dealings with government are slow, complex and frustrating it becomes increasingly tempting to pay up in order to move matters forward.

By itself an indicator of government performance is only a beginning. Indicators need to be assessed against benchmarks—generally speaking, standards by which levels of government performance can reasonably be judged. Benchmarks can take many forms but, to be useful, they must be gathered across comparable agencies and jurisdictions, and extend over time. Benchmarks are both measurements and goals, expressed in terms of some desirable outcome—speed, for example, the efficient use of public funds, or high-quality public services. Officials and reformers can watch for marked departures from benchmarks by individual agencies—a slow process or overly-frequent inspections that might be useful in extracting bribes, for example, positive or negative “spikes” in prices paid, or outright non-performance. (The responsible officials should be given the opportunity to account for such variations—they might, after all, originate in short-term market trends, or in new and vague legislative mandates—and to engage in broad-based consultation about proper responses.)
Benchmarks can take many forms, for example statistical norms based on government performance, performance norms in the private sector; market-based norms; Citizen/client assessments; and expert assessments. Multiple benchmarks will normally be needed because of the variety of factors influencing government performance. Any indicators under a benchmark should be gathered \textit{repeatedly} to establish trends and provide frequent feedback. Indeed it is the trends of the indicators regarding specific programs or functions, more than their specific information or a league-table ranking of whole cities that are likely to be most dependable and most useful to officials and reformers. Does the indirect indicator for corruption seem to point to more or less corruption over time? Are certain cities or other units growingly different from their counterparts? Why? And so forth.

The resulting data do not yield a useful single number indicating levels of corruption—and should not be portrayed as such—but rather identifies trends and positive, attainable goals while offering ways to identify and reward improving performance. Unlike corruption rankings based on a single perceptual dimension, the data can capture the actual complexity of both governing and reform. The information is presented in real, readily-understood units (for example, time and cost), rather than by index points or other arbitrary units. Most important of all, benchmarks and indicators can be \textit{actionable}, exposing which agencies or programs are need of what sorts of change. Functions that are excessively slow (or fast), prices that are out of line, or persistently erroneous budgeting and disbursement processes are clear targets for actions to bring them back toward benchmark standards. Progress in that direction does not guarantee that less corruption is taking place, but it does suggest reduced vulnerability to it and to other administrative difficulties.

As noted, data from this pilot are not, by themselves dispositive. However, if the indices were compiled more regularly, they could lead to conclusions, or at least grounded inferences, about the direction of corruption in the cities surveyed. They demonstrate that local government can in fact be studied and compared in detail. Further, they make it clear that the survey methods employed can draw out differences on a scale that are clearly worth further thought and analysis. The comparisons, expressed in terms of time and cost, are easily understood and potentially actionable. If City A’s very high costs of obtaining a QTSB certificate were replicated over time we could say with some confidence that it is an administrative process in need of careful scrutiny and reform. And if, over time, City A’s costs were to decline toward a reasonable benchmark, we could also argue that the scope of corruption in that process—in this instance, the amounts of money venal officials could make—is being reduced, even though we can never know exactly how many corrupt transactions are taking place, or the amounts of money involved. The methods employed here, were they refined and extended over time, could very well reveal both problems and positive changes of a sort that the present national-level perception data simply cannot touch.

The survey data suggest that we might be seeing indirect evidence of corruption at work. One suggestive indication is the fact that in Cities A and D, where the time it takes to license a business and the overall cost of the process are most closely correlated, the
amounts of time required for the process vary the most. That finding is consistent with (though it does not prove) the possibility that officials manipulate the amounts of time required for registration in order to extract bribes. (Such a conclusion would of course require considerably further study). Further, the five cities vary considerably in terms of time spent by businesspeople dealing with government officials. The question is significant because it can shed light on incentives to pay and on the absence of alternatives to dealing with officialdom—an indication of the sorts of administrative monopolies on which corruption might conceivably feed.

Most important, the pilot demonstrates that it is possible to compile “objective” data, i.e. based on actual experience not just perceptions and that such data can lead to useful inferences about the extent of corruption and whether it is growing or shrinking. Those inferences based on concrete, objective data would, if borne out, create a more solid basis for conclusions about corruption than data based on perceptions. They would also provide officials and reformers with well-defined targets as a basis to take counter-corruption measures by pointing to the likely places in which corruption occurs and an objective measure, year to year, about the effect of anti-corruption measures. Dr. Cheng and his colleague at Tsinghua University, Guo Yong intend to publish a paper on the City Governance Index in an international journal.

A full explanation of the theoretical bases and empirical results of the work, including the extent of their statistical validity, on the municipal corruption index is appended in Annex 1.

Part 2: The revised curriculum

Professor Cheng has developed a new curriculum for teaching corruption and good governance in China’s colleges and universities. It consists of an up-dated set of readings, lectures, and a set of accompanying, embedded case studies. The course is divided into 16 sessions. Each session has readings and a lecture. At least five of the sessions, nearly one in three, also incorporate appropriate case studies, which Professor Cheng has developed. Grades and credit for the course depend on three components: course preparation (30%); presentation and case studies (50%); and final exam (20%). Note that half of the credit in the course would depend on the presentation and analysis of case studies as they relate to the topic and readings and an additional 30% on course preparation. That level of student participation and personal analysis would depart dramatically from present practice and pedagogy.

On August 15, 2009, Professor Cheng held a conference/workshop to disseminate and analyze the proposed course. Thirty-five college and university faculty members were invited to review and discuss the syllabus, the case studies, and the revised pedagogy. The conference was held at in Zhengzhou, the capital of Henan Province in Central China. It was attended by 30 faculty members from universities in different parts of China, including Zhengzhou University, Hunan University, Xi’an Jiaotong University, Central South University, and Guangzhou University. Professor Cheng released the sample syllabus and corruption cases developed under the grant and led the discussion of
them, including the experiences of the conference participants in teaching integrity and anti-corruption to their undergraduate and graduate students. The participants also discussed future cooperation among themselves and others teaching these subjects, including cooperation in developing textbooks and case studies.

Once the results of the conference are incorporated into revised versions of the current syllabus and case studies, the materials will be sent to those who were invited but could not attend, and to anti-corruption research institutions throughout the country. The final results will be shared with the Hills Program Academic Council and the Advisory Board, and will also be posted on the CSIS Hills Program on Governance website. The cases will also be included in the database of the China Case Center for Public Policy & Management. The Center partners with the Case Studies in Public Policy and Management program of the Kennedy School of Government at Harvard to share Chinese and English cases worldwide, so the cases will be available to educators globally.

The proposed syllabus, summaries of the accompanying case studies, and a report of the conference/workshop for faculty members are appended in Annex 2.

Overall Impact of the Grant

The Stuart Family Foundation’s generous support over the past two years has enabled HGC-China to develop new tools for policymakers in China and elsewhere to benchmark government performance and evaluate anti-corruption measures in a more objective way, and has led to a promising new governance curriculum for Chinese universities. The methods used in developing our municipal corruption index demonstrate that scholars can effectively analyze corrupting influences among different regions within China, and serves as a useful guide for decision-makers and scholars in China, the United States, and the international community in developing new governance standards and organizing efforts to reduce corruption. The curriculum developed by Professor Cheng may help contribute to these efforts by strengthening the knowledge-base of Chinese students facing challenging ethical decisions in the private and public spheres once they enter the professional work force. Dr. Cheng and Dr. Guo, both of Tsinghua University, intend to publish a paper on the City Governance Index in an international journal. The curriculum case studies will be included in the database of the China Case Center for Public Policy & Management and will be available globally through the Case Studies in Public Policy & Management program of the Kennedy School of Government at Harvard.
Annex 1: Municipal Governance Index

I. Overview

The Tsinghua team’s five-city survey has provided useful new evidence on business/bureaucracy interactions at the municipal level in China. The data represent a baseline measurement that could, if repeated over time, allow innovative new estimates of specific vulnerabilities to corruption, as well as of other administrative problems. In this section we will briefly explain the assumptions underlying that argument; then, present basic results from the survey; and finally, offer a brief discussion of their significance.

II. Estimating Vulnerabilities to Corruption

Several corruption indices are available today, but most estimate levels of corruption in whole societies and rely primarily upon perceptions. Such efforts are undeniably useful, but because they are gathered at such a general level (whole countries get a single score, while corruption can vary significantly even at the agency and program level) and because they measure opinions rather than corruption itself, they give little guidance to reformers. Worse yet, results in most instances are not comparable over time—giving us little sense of whether or not reforms are having a positive effect—and they are not actionable: that is, a bad corruption score may tell us that governance is broadly problematical, but gives us no indication of what needs to be done. Both assessments of corruption problems and efforts at reform require better measurement and assessment tools if progress is to be made, and seen to be made, in the struggle against corruption.

A better strategy is to measure the sorts of things governments do, comparing both current performance and changes to verifiable benchmarks. Rather than attempting to measure corruption itself, this strategy focuses on possible effects of past corruption and—more to the point—vulnerabilities in the form of incentives sustaining it. The resulting indicators can point to specific remedies if they emphasize aspects of governance over which officials have significant control. Indicators that track changes in sensitive and accurate ways, and that are compared to meaningful benchmarks, will not only give reformers detailed feedback, but also enable successful administrators and political leaders to take credit for progress, and help others demand accountability for failure.

Indicators

As examples of useful indicators and how they might be interpreted, consider bureaucratic delay.

Let us assume that in River City, getting a building permit involves 33 steps and takes seven weeks, while in Springfield the same process typically involves 4 steps and
takes three days. Corruption cannot be measured directly in either case, but the numerous steps and long delays in River City may signal, among other influence, the effects of past corruption as bureaucrats have found they can make money by contriving new requirements and delays. Those barriers and delays, in turn, create incentives sustaining corruption: construction firms, knowing that time is money, find it cheaper to pay up than to wait. In Springfield even the venal officials have less time, and fewer bureaucratic “tollgates”, to use in extracting payments, and contractors have less reason to bribe. Its permit process is more tamper-evident: if bureaucrats responsible for one of the four steps demand payments, resulting delays are likely to become visible in an otherwise rapid process.

In no way can we assume that all differences between the two cities’ permit processes, or between them and the sorts of benchmarks to be discussed below, can be attributed to corruption: a variety of administrative problems might affect agency performance, and there is of course a degree of variation in speed and number of processes that might be entirely reasonable. Further, it is worth remembering that the fastest process is not necessarily the best; a one-step process, placing all power and discretion in the hands of a single official, might well be the most corrupt of all. It is also easy to imagine administrative procedures that are rushed in order to extract payments or conceal wrongdoing. Rather, the idea is that vulnerabilities to corruption can be identified and tracked over time. If River City reduces the steps and time required by its permit process, the vulnerability to and scope for corruption is likely being reduced.
The best indicators will be easily gathered, clearly linked to the effects of corruption and its sustaining incentives, broadly comparable, and easily understood. A few examples might include:

- Citizen assessments of the quality of public services and facilities: do applicants for licenses, or citizens who call the police, receive expeditious and fair treatment, and do road projects actually produce construction of the planned quality and length?
- Time, expense, and the number of steps involved in establishing a small business or a corporation
- Speed and accuracy with which vendors’ invoices are paid
- Time and charges involved in obtaining routine information, copies of documents, or passports, licenses, and permits
- Frequency, time, number of steps, and range of variations occurring in regulatory inspections and tax assessments
- Trends in the numbers of licenses and permits, and in subsidy or benefit payments, granted by a given agency
- Number of inspections performed per member of field staff in regulatory agencies
- Prices paid to suppliers and charged from the public for basic services (school meals, telephone equipment, fuel, clerical supplies)
- Whether purchases are delivered in the quantities, quality, and places intended, and in a timely fashion
- Whether revenues received are handled in honest and expeditious fashion

There is a consistent logic underlying such indicators: if one unit of government pays fifty per cent more for petrol than do others; charges unusually high (or low) royalties for extracting natural resources; needs ten employees to accomplish tasks performed elsewhere by four; publishes budgets that are routinely off the mark in terms of actual outcomes; has high rates of zoning and assessment variances, or conducts far more (or fewer) regulatory inspections than similar units of government elsewhere, those are specific indications of where to look for the effects of corruption, and for the incentives and opportunities facilitating continuing abuses. Even if it is never known exactly how many corrupt actions have been taking place at any one time, improved procedures and services are a positive outcome for society and government.

**Compared to What? Benchmarks**

By itself an indicator of government performance is only a beginning. Indicators need to be assessed against benchmarks—generally speaking, standards by which levels of government performance can reasonably be judged. Benchmarks can be gathered across comparable agencies and jurisdictions, and extend over time. They are both measurements and goals, expressed in terms of some desirable outcome—speed, for
example, the efficient use of public funds, or high-quality public services. Officials and reformers can watch for marked departures from benchmarks by individual agencies—a slow process or overly-frequent inspections that might be useful in extracting bribes, for example, positive or negative “spikes” in prices paid, or outright non-performance.iii Responsible officials should be given the opportunity to account for such variations—they might, after all, originate in short-term market trends, or in new and vague legislative mandates—and to engage in broad-based consultation about proper responses.

Benchmarks can take many forms;iv a few possibilities include:

**Statistical norms based on government performance:** Time required to issue a license, or amounts paid for basic commodities, by comparable agencies or jurisdictions.

**Performance norms in the private sector:** Some administrative functions—though by no means all—may be compared to private-sector performance norms. Payment of invoices or procurement might be examples.

**Market-based norms:** Some procurement, for example, can be compared to private-sector prices and procedures, although public agencies can be subject to demands and restrictions businesses do not face. Fees and charges are more complicated, as most public agencies do not sell outputs in competitive markets; still, bus fares or telephone service costs might be compared to private alternatives.

**Citizen/client assessments:** Citizens can be excellent sources for assessing performance. The well-known “Citizen Report Cards” scheme in Bangalore, India, produce assessments of services and regular consultation with officials regarding improvements. Advocacy groups, or business and trade associations, might submit applications for information and documents on a regular basis, keeping records on the time, expense, and difficulties involved.

**Expert assessments:** Where comparable processes do not exist, where a jurisdiction is unique (e.g. a city that is by far the largest in a country), or a function is highly technical, expert panels can define reasonable performance targets or ranges.

Even benchmarks such as citizen satisfaction with services can produce hard indicators—police response time, for example, reliability of utility services, or number of paving problems in a given length of roadway.

All such indicators should be gathered repeatedly to establish trends and provide frequent feedback. Multiple benchmarks will normally be needed because of the variety of factors influencing government performance. Comparisons to private-sector data (which may themselves be scarce or of dubious reliability) should be made with caution, as government is emphatically not just another business organization.
The resulting process does not yield a single number indicating levels of corruption—and should not be portrayed as such—but rather identifies positive, attainable goals while offering ways to identify and reward improving performance. Unlike corruption rankings based on a single perceptual dimension, the data can capture some of actual complexity of both governing and reform. Most important of all, benchmarks and indicators can be actionable, telling us which agencies or programs are need of what sorts of change. Functions that are excessively slow (or fast), prices that are out of line, or persistently erroneous budgeting and disbursement processes are clear targets for measures bringing them back toward benchmark standards. Progress in that direction does not guarantee that less corruption is taking place, but does suggest reduced vulnerability to it and to other administrative difficulties.

III. The Five-City Survey

The Tsinghua team engaged a survey firm to gather data in five middle-sized and large cities in the People’s Republic of China. The cities will not be named here, as we do not wish to appear to be comparing overall quality of governance on the basis of one trial survey project. They are, however, home to large numbers of citizens and are representative of the way China’s municipalities do their business.

The survey included a wide range of questions, but several questions asked of businesspeople are particularly relevant to the indicator-and-benchmark strategy for assessing vulnerability to corruption. They are the following:

10.1 Questions regarding business license application

10.1.3 How long did the application process take? _____ months _____ days

10.1.4.1 How many steps did the application process take? _____ steps,

10.1.5.1 How long did it take for the local Industry & Commerce Bureau (ICB) to confirm the company name? _____ days

10.1.5.2 How much did it cost? _____ Yuan

10.1.6.1 How long did it take to apply for the legal person’s business license from the ICB? _____ days

10.1.6.2 How much did it cost? _____ Yuan

10.1.7.1 How much time did it take to obtain the organizational code certificate at the local Quality and Technology Supervision Bureau? _____ days

10.1.7.2 How much did it cost? _____ Yuan
10.1.8.1 How much time did it take to establish a bank account for your company? ____ days

10.1.8.2 How much did it cost? ____ yuan

10.1.9 How much money did you spend on the entire registration process? ____ yuan

10.2 Have you provided any goods/services to local party and government agencies?
(1) yes   (2) no

If yes, how long did it take for the agency to pay for the goods/services after the delivery?
(1) Within 1 week    (2) one week to a month    (3) 1-3 months
(4) 3-6 months    (5) 6-12 months    (6) more than 1 year

10.3 In the past year, how much of your working time is spent on dealing with government officials?
(1) Almost none   (2) Very little   (3) about 1/5
(4) about 1/3   (5) more than half

The value of such questions lies in the fact that they do not ask respondents their general opinions of the quality of government, but rather ask for specific indications of performance. In the discussion of results to follow we will focus on the business licensing program, as there the data are most complete; in several cities the number of respondents providing goods and services to party and government agencies is too small for analysis. We will, however, also briefly consider the question about time spent dealing with government officials.

Survey results

Data were gathered between September and November, 2008, by Anderson Survey, a reputable survey-research firm with considerable experience in China. The survey produced the following total numbers of business respondents:

<table>
<thead>
<tr>
<th>City</th>
<th></th>
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<tbody>
<tr>
<td>City A</td>
<td>209</td>
</tr>
<tr>
<td>City B</td>
<td>218</td>
</tr>
<tr>
<td>City C</td>
<td>210</td>
</tr>
<tr>
<td>City D</td>
<td>217</td>
</tr>
<tr>
<td>City E</td>
<td>225</td>
</tr>
<tr>
<td>Five-City Total</td>
<td>1079</td>
</tr>
</tbody>
</table>

A parallel citizen survey on different issues produced an additional 1073 respondents, but did not include comparable indicators of government performance and thus will not be considered here.
Following are a number of graphs comparing the five cities on the licensing performance indicators listed above. As for benchmarks, the ideal would be to look at both cross-sectional standards—average levels of performance across cities at any given time, and perhaps even more important, at longitudinal trends in the performance of individual cities’ governments over time. The latter sorts of self-to-self comparisons repeated on a regular basis would give us the best grasp on whether or not performance is improving with respect to benchmarks, but given the trial nature of this survey project we have only one round of observations to work with. Thus, in the graphs to follow we present a dashed line representing the five-city average on each performance measure. The business survey showed that there are significant variations in government performance from city to city—more that enough variation to justify further work on the sorts of indicators discussed earlier. Indeed, as the analysis of variance figures following each graph show, in every case city-by-city contrasts were statistically significant—that is, while we do not know in detail what causes all contrasts, we can be confident that they do not resemble simple random variation.

For each of the following tables, the bars represent the mean for a given city on the relevant indicator; the figure on each bar is the exact result in each case.
10.1 Questions regarding business license application

10.1.3 How long did the application process take? ____ months ____ days

Analysis of variance: $F = 48.358$, $p = .000$
(in effect, the chance that these differences represent random variation is near zero)
10.1.4.1 How many steps did the application process take? 

City A: 2.34 steps,  
City B: 5.37 steps,  
City C: 3.85 steps,  
City D: 3.72 steps,  
City E: 3.47 steps,

Analysis of variance: $F = 176.970, p = .000$
10.1.5.1 How long did it take for the local Industry & Commerce Bureau (ICB) to confirm the company name? ____ days

Analysis of variance: F=10.271, p=.000
10.1.5.2 How much did it cost? ____ yuan

How much did it cost to confirm company name?

<table>
<thead>
<tr>
<th>City</th>
<th>Cost (yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City A</td>
<td>349</td>
</tr>
<tr>
<td>City B</td>
<td>33</td>
</tr>
<tr>
<td>City C</td>
<td>78</td>
</tr>
<tr>
<td>City D</td>
<td>39</td>
</tr>
<tr>
<td>City E</td>
<td>103</td>
</tr>
</tbody>
</table>

Analysis of variance: F=45.136, p=.000
10.1.6.1 How long did it take to apply for the legal person’s business license from the ICB? _____ days

Analysis of variance: $F=3.922, p=.004$
10.1.6.2 How much did it cost? ____ yuan

Analysis of variance: $F=18.129$, $p=.000$
10.1.7.1 How much time did it take to obtain the organizational code certificate at the local Quality and Technology Supervision Bureau? ____ days

Analysis of variance: $F=52.036$, $p=.000$
10.1.7.2 How much did it cost? ____ yuan

<table>
<thead>
<tr>
<th>City</th>
<th>Cost (yuan)</th>
</tr>
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<tbody>
<tr>
<td>City A</td>
<td>441</td>
</tr>
<tr>
<td>City B</td>
<td>159</td>
</tr>
<tr>
<td>City C</td>
<td>127</td>
</tr>
<tr>
<td>City D</td>
<td>130</td>
</tr>
<tr>
<td>City E</td>
<td>97</td>
</tr>
</tbody>
</table>

Analysis of variance: $F=21.059$, $p=.000$
10.1.8.1 How much time did it take to establish a bank account for your company? ____ days

Analysis of variance: $F=35.698, p=.000$
10.1.8.2 How much did it cost? _____ yuan

Analysis of variance: $F=25.083$, $p=.000$
10.1.9 How much money did you spend on the entire registration process? ____ yuan

Analysis of variance: F=14.071, p=.000
IV. Discussion

Several caveats are in order at this point. First, as noted, we have only a tentative benchmark to employ—the five-city averages for each question above—and only one round of observations. Further, and again as pointed out in the earlier discussion, we cannot claim that all differences between city observations and the mean correspond to greater or lesser corruption problems, nor say with any certainty what share of any difference is accounted for by corruption, by other administrative problems, or by legitimate and defensible differences among cases and cities.

Still, the Tsinghua data are valuable and important. They show that local government functions in a society whose governance was long thought to be a closed subject for outsiders can in fact be studied and compared in detail. Further, they make it clear that the survey methods employed can draw out differences on a scale that are clearly worth further thought and analysis. The comparisons, expressed in terms of time and cost, are easily understood and potentially actionable: if City A’s very high costs of obtaining a QTSB certificate were replicated over time we could say with some confidence that that is an administrative process in need of careful scrutiny and reform. And if, over time, City A’s costs were to decline toward a reasonable benchmark, we could also argue that the scope of corruption in that process—in this instance, the amounts of money venal officials stand to make—is being reduced, even though we can never know exactly how many corrupt transactions are taking place, or the money amounts involved. The methods employed here, were they refined and extended over time, could very well reveal both problems and positive changes of a sort that the present national-level perception data simply cannot touch.

Further, there are some reasons to think we might be seeing indirect evidence of corruption at work. One suggestive indication is the fact that in Cities A and D, where the time it takes to license a business and the overall cost of the process are most closely correlated, vi the amounts of time required for the process vary the most. vii That finding is consistent with (though does not prove) a scenario in which officials manipulate the amounts of time required for registration in order to extract bribes. (Such a conclusion would of course require considerably further study).

Further, the five cities vary considerably in terms of time spent by businesspeople dealing with government officials. The question is significant because it can shed light on incentives to pay and on the absence of alternatives to dealing with officialdom—an indication of the sorts of administrative monopolies on which corruption might conceivably feed. While the Tsinghua questionnaire did not ask for a days-and-hours response, it did elicit categories we can compare:
10.3 In the past year, how much of your working time is spent on dealing with government officials?

(1) Almost none  (2) Very little  (3) about 1/5
(4) about 1/3  (5) more than half

<table>
<thead>
<tr>
<th>City</th>
<th>Mean</th>
<th>Analysis of variance: F=20.736, p=.000</th>
</tr>
</thead>
<tbody>
<tr>
<td>City A</td>
<td>1.823</td>
<td></td>
</tr>
<tr>
<td>City B</td>
<td>1.656</td>
<td></td>
</tr>
<tr>
<td>City C</td>
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<td></td>
</tr>
<tr>
<td>City D</td>
<td>1.759</td>
<td></td>
</tr>
<tr>
<td>City E</td>
<td>1.351</td>
<td></td>
</tr>
</tbody>
</table>

In a future survey project this question would no doubt be phrased differently, asking for an estimate of time (say, hours per week) rather than the more subjective categories above. Different respondents might mean contrasting things when they say “very little”, for example. For those reasons we have not converted “Almost none” to a zero score or attempted any significant statistical analysis of these results. Still, it is intriguing to note that responses to this question do vary significantly across the five cities, suggesting that the Tsinghua team is onto something worth studying with a more precise question or questions. Further, City C, which produced the highest value on this very rough estimate of time spent dealing with officials, also produced two of the three strongest correlations between time and expense involved in specific functions—specifically, between the time and cost required to obtain a QTSB code certification ($r=.405$, $p=.000$) and between time
and cost involved in obtaining a bank account for a business ($r=.611$, $p=.000$). Those results are far stronger than most of the correlations found across the five cities for the various cost-and-time relationships, and are consistent with (though again, hardly conclusive evidence of) an intrusive, manipulative officialdom or, perhaps, of businesspeople who have learned they must spend time propitiating officials before key steps of the business formation process can go forward.

As noted, all of these results, and the thoughts they encourage, are tentative. Still, the Tsinghua survey process has shown that more, and better, such work on local government in China can produce both useful data and genuine insights into vulnerabilities to corruption, targets for reform, and progress over time.

References

1 This discussion draws upon Michael Johnston, “Assessing Vulnerabilities to Corruption: Indicators and Benchmarks of Government Performance”, *Public Integrity* (forthcoming).
1 Bivariate correlations (Pearson’s r) between overall time for licensing and overall cost are as follows:

<table>
<thead>
<tr>
<th>City</th>
<th>$r$</th>
<th>$p$</th>
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<tr>
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<td>.000</td>
</tr>
<tr>
<td>City B</td>
<td>-.133</td>
<td>.025</td>
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<tr>
<td>City C</td>
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<td>.115</td>
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<tr>
<td>City D</td>
<td>.178</td>
<td>.004</td>
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<tr>
<td>City E</td>
<td>.076</td>
<td>.128</td>
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1 Standard deviations around the mean overall time to register:

<table>
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<th>City</th>
<th>Mean</th>
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<td>City D</td>
<td>40.260</td>
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<tr>
<td>City E</td>
<td>26.854</td>
</tr>
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Annex 2 : Case Studies of Corruption in China

Business Bribery: A New Challenges facing China’s Anti-Corruption System: Cases Involving Foreign Firms

Abstract:

Business Bribery has become a popular type of corruption in contemporary China. In recent years, many multinational corporations have been accused of paying bribes to Chinese officials in order to get business contracts and other interests. The following material summarizes the most influential business bribery cases involving multinationals such as Lucent Technologies and Siemens, and then explains China’s current strategies, institutions and agencies for handling business bribery cases. Finally, it raises questions on how China can deal with business bribery cases more effectively, especially through international cooperation with other governments.

Six Cases Involving Foreign Firms

1) Fidelity Information Services (FIS) And Zhang Enzhao Bribery Case

On March 16th 2003, 59 year-old Zhang Enzhao resigned “for personal reasons” from his position as director and president of the China Construction Bank. He had just been appointed as president of the Bank for half a year and was accused of accepting million-dollar bribes in a civil law suit filed in 2002 in California. The lawsuit grew out of a business dispute between Grace and Digital (G&D) Information Technology and Fidelity Information Services (FIS). According to G&D, FIS paid $1 billion to Zhang Enzhao, in return for which Zhang favored the bid of FIS in what was supposed to be an open competition in China, thereby making G&D the loser and victim in the supposedly open competition. G&D collected evidence and filed a complaint under the U.S. Foreign Corrupt Practices Act (FCPA). The case shows that foreign companies can bring new forms and sources of corruption but that they may also be part of anti-corruption power in China through the anti-corruption laws of their home countries. It also demonstrates that government officials and high-level administrators of State-Owned Enterprises in China
who capture the access to public resources benefit from *Guanxi*, the creation of long-term reciprocal obligations based on mutual favors. In this common practice, several companies wanting public business make discrete offers of favors to establish the *Guanxi* relation. The public officials decide which of these offers to accept and therefore with which companies to establish the long-term relationships and mutual obligation. Once established, the company has almost guaranteed business from the government official but is bound, long-term, to provide the favors.

2) SEC vs. Lucent: *Guanxi*

As a world famous internet technology giant, Lucent Technologies is expanding its market in China at a rapid pace. In May, 2001, Lucent announced that it signed a $1 million contract with the China Unicom Telecommunications Company (CDMA, China) to provide the first phase of the telecommunication network service. Consequently, Lucent became the largest telecommunication equipment provider for CDMA in China. In 2002, Lucent signed another $1 million contract with CDMA to provide the second phase of the network service. In 2003, Lucent was awarded a $28 million dollar contract by CDMA to expand its third phase network service. Four months later, Lucent cooperated again with CDMA and the China Mobile Communications Corporation (CMCC) and received a $35 million contract to strengthen the project at multiple levels. During that period, revenues from Lucent’s customers in China amounted to $90 million, which accounted for 11% of Lucent's consolidated revenues. Lucent’s China subsidiary was its only overseas branch with a “double-digit” revenues.

However, the impressive sales growth ended in 2004 with the uncovering of Lucent’s involvement in business bribery in China. Lucent Technologies fired four
executives at its Chinese operations, including the president and chief operating officer (CEO), for violations of the U.S. Foreign Corrupt Practices Act (FCPA). According to the findings of the FCPA, between 2000 and 2003, Lucent paid for approximately 1,000 Chinese government officials to take trips to the United States and spent more than $10 millions on their travelling expenses. Eventually, Lucent settled the case with the US Securities and Exchange Commission (SEC) by paying a $25million penalty although without denying or accepting the SEC allegations. The company also refused to reveal the details of the investigation, including the names of the Chinese government officials and the amount of money they received.

However, Lucent fired all the senior officials in its Chinese subsidiary. Some of the staff members objected saying that they were only conforming to the widespread, common practice of Guanxi, the creation of long-term reciprocal obligations based on favors. Guanxi, they argued underlies almost all commercial relations and transactions. Without Guanxi, a company will lose any hope of getting business. They believed that China was an environment where unfair market competition existed and that they were following common business rules which meant that, if they did not provide some individual incentives to the Chinese officials, business opportunities would be seized by other companies with more “flexibility” like those from countries that did not have legal sanctions against foreign corrupt practices. Therefore, they argued, it was unfair to use FCPA standards to judge them. They also claimed that they were forced to make the decision after the company was localized and entered the market where Guanxi mattered a lot.
3) **Daimler- Chrysler group V.S. SEC**

In 2004, a former accountant of Daimler-Chrysler Group alleged that he was fired in part because he had complained to superiors about secret bank accounts kept by the company's Mercedes unit. Soon after that, he publicly exposed a business bribery scandal in the company. He alleged that as one of the biggest automobile manufacturers, the company kept more than forty secret bank accounts to bribe foreign officials.

In the document he submitted to the US Securities and Exchange Commission (SEC), he claimed that the company had made “illegal payment” in large amounts, which might be considered as violations of the U.S. Foreign Corrupt Practices Act (FCPA), German laws, and other regulations. Although it was unclear whether the Chinese market was involved or not, some insiders of the automobile industry in China said that such payments were a “common practice” in their circle. A director of a Chinese consultant company for multinational automobile corporations pointed out that there was clear and strict definition of “business bribery” in other countries with regard to the amount of payments that would be prosecuted. According to that definition, some of the Chinese automobile joint-ventures had already been under the suspicion of “bribery” because their “Public Relations” departments spent just this kind of money to avoid the time-consuming approval process for a new product. Actually, they said, many companies have a special budget for “dealing with public relations” in China. To some extent, there was no difference between expenses they paid for “public relations” and business bribery. The SEC conducted an 18-month investigation but SEC did not reveal the details of its investigation, including the names of the Chinese government official or the amount of money they received.
4) Wal-Mart involved in business bribery in Yunnan, China.

On December 4\textsuperscript{th} 2005, the former secretary of the Communist Party and department head of Yunnan’s Foreign Trade and Economic Cooperation Office (FTECO), Peng Muyu was convicted of taking bribery and abusing public funds and sentenced five years in prison. During his time at the FTECO, where he was in charge of reviewing the application of Wal-Mart Management Service Co. Ltd in Kunming, he acquiesced in his wife’s taking gifts amounting to approximately RMB 100,000 from a board member of the company.

On November 2\textsuperscript{nd} 2002, Peng was taken into custody and on November 15\textsuperscript{th}, he was formally arrested. According to the investigation of the Kunming Intermediate People's Court, in December 2003, the Kunming Wal-mart Management Service Company, during the process of submitting applications for projects, provided the wife of Peng Muyu, Cheng Nan, with a guided shopping tour of Hong Kong and send her gifts, including a luxurious sofa, a diamond ring, brand name clothing, and so on, by Zhou Jiali, one of the company’s board members.

According to Wal-Mart’s Headquarters, the Kunming Wal-Mart Management Service Co. Ltd was established by Wal-Mart and Zhou Jiali. Zhou was a board member and held at least 30\% of the company’s share. Zhou was a former general manager of a Hong Kong company, president of Kunming Jiada Industries, and chief director of Kunming Jiahua Property Company. In November 19\textsuperscript{th} 2002, Zhou was arrested with the approval of the People's Procurator. The Kunming Intermediate People’s Court made public that she had also been involved in another bribery case related to the former provincial governor of Yunnan. However, according to the court, that the arrest had
nothing to do with the case involving Peng Muyu. Moreover, Wal-Mart refused to admit
that Zhou’s behavior had anything to do with Wal-Mart. Wal-Mart Company, it said,
always observed discipline and abided by the law, and Zhou’s actions were taken
privately for ‘personal reasons’. They also claimed that the Wal-Mart company was not
informed of Zhou’s illegal actions before she was arrested, and that it was not be
responsible for any of the possible results.

However, in Kunming, some insiders of the industry remain suspicious about the
Peng Muyu case. First, Zhou Jiali was giving gifts to Peng Muyu’s wife to express her
gratitude for his help in Wal-Mart’s application process. If this had nothing to do with
Wal-Mart’s entering to local market and was purely a matter of Zhou’s personal conduct,
why should Zhou spend her own money---as much as RMB 100,000---for the company’s
benefits? Second, she was the share holder who could take the amount of money from
the part of profits she gained from the company. How could Wal-Mart, the controlling
share holder in the Kunming company, remain ignorant of her improper behavior?

5) Siemens involved in business bribery in the bidding process for a public hospital
in Jilin

In November 2006, the world-famous German telecommunications giant Siemens
was under investigation in Germany for world-wide bribery of up to 42 million Euros.
Siemens had already been in China for ten years and had expanded its Chinese market
during that time. The company refused to release the details of the bribery case.
However, the German officials investigating Siemens uncovered its activities in China
and passed the information along to Chinese officials.
Beginning some six months earlier, the Songyuan Health Bureau had started an anti-business bribery project. Among the pieces of evidence that the German investigators passed to the Chinese officials was some that related to Siemen’s activities in Songyuan. In particular, German investigators passed to the public prosecutors of Jilin Province several documents that listed officials of the Songyuan public hospital officials. As a result of information passed to the local officials of the Anti-corruption Bureau, the former president of Songyuan Hospital, Hou Yingshan, who had been awarded the title of “advanced worker” praised publicly, was apprehended by officials of Bureau of Anti-corruption and charged with corruption. According to an official from the Songyuan Health Bureau, if information from the Siemens international business bribery scandal had not been disclosed by the German authorities, they may not be able to uncover Hou’s case.

[In this seemingly transparent public bidding process of Songyan hospital, Hou was in charge. Siemens, the equipment supplier of the public hospitals had already reached an agreement with Hou prior to the final bidding in which Siemens offered an audacious price in public and received the actual amount of money according to the previous agreement. After winning the bid, they would refund the price difference to the buyer in private as kickbacks to the officials in charge.] In this case, Siemens was deeply trapped and had to hire a new CEO Peter Loescher. Although Siemens fired twenty Chinese staff members whose conduct were considered as ‘intolerable’, as a famous multinational cooperation in China, Mr. Loescher pointed out that Siemens had to strengthen its auditing system in China to fight for bribery and enhance the transparency.

6) The ‘Diagnostic Products Corporation (DPC)’ case
In May 2005, the U.S. Judicial Department revealed that the Tianjin subsidiary of DPC, the world’s largest manufacturer of medical diagnostic equipment, paid bribes of $1.623 million to Chinese state-owned hospitals over a period of 11 years starting in 1991, in order to convince the hospitals to switch to the purchase of DPC products. DPC obtained profits of $2 million as a result of those bribes. Eventually, the company was fined $4.78 million by the U.S. authorities for breaches of U.S. commercial bribery laws.

During 1996 and 2002, DPC Tianjin paid cash to public hospital officials and doctors in order to introduce DPC products to their departments. The amount of payment added up to $1.62 million, but DPC made at least $2 million dollars on the deal as a whole, even after incorporating the payments.

In this case, many insiders in the industry maintain that DPC Tianjin’s methods were “too naïve” because it bribed officials with cash and then recorded those amounts on its corporate accounts as sales costs. Of course, they said, the practices would be disclosed by auditors. Using other methods, some companies, especially in the pharmaceutical industry, reimburse the travel expenses of their clients and attribute them to sales costs. Others, however, for other PR (Public Relation) targets, they will arrange and pay for business trips and conferences as part of their “public relations.” In some cases, if their clients ask for kickbacks directly in cash, the companies find a local agency through which to make the payments, thereby avoiding risks. For example, in the “kickback scandal” in the public medical care system of Chongqin, the bribes were paid by the chief manager of a local company, which was the chief agent of Madison Company, a U.S. company. However, Madison denied any connection with bribery by the local agency and alleged that it was the personal conduct of the local agent.
Questions for discussion:

1. What is the nature of business bribery? How many different forms of business bribery can you find? What is the difference between business bribery and commercial practice?

2. What is the changing environment in China? Are there any new features of business bribery?

3. What is moral philosophy of the managers of Multinational Corporation on perceptions of corruption payment, such as bribery, kickbacks and gift-giving? Why is it so difficult to uncover and investigate international business bribery? What are the possible impacts of business bribery in a developing country like China?

4. In this case, do you think that the current Chinese legal system is efficient in dealing with business bribery? What steps should the Chinese government and foreign business companies take to win the anti-corruption battle?
Business Bribery: A New Challenges facing China’s Anti-Corruption System: Two Cases Involving Domestic Chinese Firms

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[In this seemingly transparent public bidding process of Songyan hospital, Hou was in charge. Siemens, the equipment supplier of the public hospitals had already reached an agreement with Hou prior to the final bidding in which Siemens offered an audacious price in public and received the actual amount of money according to the previous agreement. After winning the bid, they would refund the price difference to the buyer in private as kickbacks to the officials in charge.] In this case, Siemens was deeply trapped and had to hire a new CEO Peter Loescher. Although Siemens fired twenty Chinese staff members whose conduct were considered as ‘intolerable’, as a famous multinational cooperation in China, Mr. Loescher pointed out that Siemens had to strengthen its auditing system in China to fight for bribery and enhance the transparency.

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Case One: Kickback Scandal in Beijing Postal System

Abstract:
In 2005, Beijing’s Prosecutors successfully uncovered a big corruption case involving employees of several ministries. In the face of severe competition in the postal market, several branches of Beijing Postal Service provided kickbacks to employees of public agencies in order to secure business with them. Since these public agencies pay for their postal expense monthly in accordance with a billing statement, it is relatively easy for a local post office to overcharge the agencies and, out of the inflated receipts from the public agencies, to pay kickbacks to the employees of the public agencies. This is a typical case of how information asymmetry brings about corruption opportunities. Finally, This case raises questions (see below) about how reform of China’s postal system could help reduce the possibilities of this kind of corruption.

Case Study
On December 8th 2004, the People's Procuratorate of Xicheng District of Beijing City received a report alleging corruption in Buwai Hospital. The report claimed that a worker in the mail room of Buwai Hospital, Zhao Shengli, might be involved in corruption with the postal authorities as he was receiving and sending mail. However, after reviewing the report, the director of Anti-corruption Bureau found that the allegations had nothing to do with key public institutions, nor were they related to any high officials or key political figures. The director transferred the case to an investigator.

The investigator found that every month the postal charge of Buwai Hospital was taken from an account committed to an entrusted bank. The accused worker had never handled
the payments so it was unclear how he could commit the alleged crime. Upon further exploration, the investigator found that Buwai Hospital had a monthly postal service charge of approximately RMB 5,000. However, the bill sent to the hospital was for more than RMB 10,000 per month. Thus, the monthly bill was almost two times more than the actual postal service charge. Where did the extra-charge go?

Actually, officials of Buwai Hospital had already noticed the problematic monthly postal service charge a year earlier, in 2003. They also received reports regarding a potential corruption by the accused worker, Zhao Shengli. The hospital official had a talk with Zhao but found no direct evidence regarding the postal service bill. However, immediately after the conversation, the monthly postal bill suddenly and without explanation dropped by 50%. The officials in Buwai hospital were convinced that there were some underlying problems related to the postal service bills, and they reported their concerns to local People's Procuratorate in 2004.

In January 5th 2005, the People's Procuratorate of Xicheng District summoned Liu Jianhai, the key account manager of Buchenmeng Post Office, and Zhao Shunli, to the Procuratorate and continued the investigation.

Shortly thereafter, the key manager confessed to his crime. He acknowledged that he had bribed Zhao Shunli by surcharging Buwai Hospital, creating false receipts, and sending kickbacks (such as prepaid phone cards and gifts) to Zhao. He alleged that he did all of this in order to ‘expand business and keep current clients’. Investigator Wang noted that if Liu’s conduct was ‘to expand business and keep clients’, there might be other ‘clients’ who also received bribes. Immediately, he reported to the director of Anti-corruption
Bureau. The People's Procuratorate held an internal meeting and decided to set a special task force to deepen and broaden the investigation.

Liu Jianhai had a special notebook which was a key to the investigation process. In this notebook, he had clearly recorded the names of the persons who were involved in Liu’s activities and their contact information. The details of their ‘business’ with Liu Jianhai was also kept, making the investigation progress rapidly.

On January 6th 2005, 11 workers who involved in the corruption case were arrested. The related public agencies and amount of kickbacks were also revealed:

1. Ministry of Land and Resources: RMB 150,000
2. State Administration of Industry and Commerce: RMB 180,000
3. State Statistical Bureau: RMB 240,000
4. State Administration of Foreign Exchange: RMB 110,000
5. Ministry of Education: RMB 220,000
6. China Construction Industry Press: RMB 90,000
7. China Construction Bank: RMB 60,000
8. China Council for Promotion of International Trade: RMB 60,000
9. Beijing Finance Bureau: RMB 150,000
10. Beijing Jishuitan Hospital: RMB 30,000
11. Beijing Buwai Hospital: RMB 170,000

According to these people’s statement, these kinds of kickbacks were ‘common practice’ in their industry. Because of the severe competition between different postal offices, many local postal offices set up a special Public Relations Department whose accounts they could use to bribe the key clients and their critical colleagues. The investigators disclosed that the
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According to these people’s statement, these kinds of kickbacks were ‘common practice’ in their industry. Because of the severe competition between different postal offices, many local postal offices set up a special Public Relations Department whose accounts they could use to bribe the key clients and their critical colleagues. The investigators disclosed that there were many “E-Counters” in local postal office where people can buy prepaid phone cards and other gifts such as tea, vegetable oil and so on. In order to keep good relations them, the local post office allowed the key clients and critical colleagues to take these goods free of charge and also sent them additional kickbacks. The postal
manager, Liu, alleged that those key clients, who were in charge of receiving and sending mail for the public agencies, often threatened that they would go to a different post office if the manager stopped sending them kickbacks. Therefore, the post office had no choice but to acquiesce in their illegal behavior. When the public agency workers got their ‘gifts’, they usually sold them at a discount and kept the cash. Eventually, Liu was sentenced to prison for 10 years and other people involved were also sentenced to five to ten years in prison.

Questions:

1. The manager of key clients of Buchengmen Post Office claimed that he had to bribe the eleven clients because they all threatened to transfer their accounts to other post offices. What do you think of his allegation?

2. Some of the related workers believed that because they were told to take the agency’s mail to the local post office by themselves, there should be some ‘bonuses’ for them as an extra service charge. What do you think of this statement?

3. What are the features of this case? What do you think is the underlying reason for the bribery described in this case?

4. Why did the investigators believe that this is not a single case but a case that related to many public agencies?

5. What lessons should be learnt from this case?
Business Bribery: A New Challenges facing China’s Anti-Corruption System: Cases Involving Domestic Chinese Firms

Case Two: E-Integrity: The Future of China’s Anti-Corruption Work--Innovations of Shenzhen

Abstract:

The traditional way of preventing corruption concentrates on institutional reforms. However, e-government systems have proved to be an alternative approach. Because of their transparency, information technology can resolve the information asymmetry problem that creates corrupt opportunities.

In recent years, many developed areas in China have explored how to prevent corruption through technological innovations. Shenzhen is a pioneer in this approach. Supervisors can now monitor the exercise of any approval power by public employees. Online monitoring and automatic pre-warning have substantially increased the risk and cost of corrupt activities.

This case reviews the process through which Shenzhen has designed and built its e-integrity monitoring system, and what innovations in Shenzhen mean for China’s future anti-corruption reforms

Case Study
In July 2001, United Nations Development Program (UNDP) launched a software program to assist the Chinese government to develop a balanced and effective anti-corruption system. The program targeted at Ministry of Supervision and was supported by Department of Commerce and China International Centre for Economic and Technical
Exchanges. In November 2002, both sides signed an agreement setting up the ‘China Anti-corruption Program’ in Beijing.

On January 11\textsuperscript{th} 2003, the program started at Shenzhen with three core teams, ten research teams, and eleven provincial research units. Each core team was put in charge of a special area, ‘preventing corruption by eliminating its roots’, ‘anti-corruption and legal system reform’, and ‘intensify administrative supervision and advance the principle of rule of law’. In June 2004, in order to put the research findings into practice, six cities were selected as pilot cities for a future national E-government. The city of Shenzhen’s ‘E-integrity’ system was a model for the future of China’s anti-corruption campaign using this method.

Beginning in 1995, Shenzhen has been building a strong background in building an electronic supervision system for administrative approvals. On February 25\textsuperscript{th} 2004, it announced \textit{Regulations of Government Online Sources of Legislative and Regulatory Information} to promote transparency and effectiveness and implement E-government system in the administrative approval process. The Committee of the National People's Congress subsequently approved \textit{The Administrative Law} and \textit{Regulations for Electronic Signature}. These two sets of laws and regulations became the principal legal bases for E-government, and pushed the steps for E-Integrity program forward.

In June 2004, the local government of Shenzhen authorized the Taiji Software Company to develop an electronic supervision system to govern administrative approvals. Under the coordinated supervision of the Shenzhen municipal government, the Shenzhen Bureau of Supervision, the Shenzhen Bureau of Information and Technology, the Taiji Software Company launched the electronic supervision system. It brought 31 public
agencies and 239 approval items under the agencies’ e-examination and supervisory approval process. By enforcing the electronic government platform, all administrative procedures were subject to government supervision and became transparent and available to the public. Through the municipal intranet, the supervision system combined the functions of data collecting, online remote video monitoring, online reporting, and evaluation. Through the internet system, citizens and enterprises can submit applications online and check on the status of the application. They could also report to supervisors when they felt doubtful about the open data or application results. By using the parallel intranet and internet systems, the electronic supervision system implemented the E-Integrity project and created a well-functioning administrative approval and evaluation process. Their main services include:

1. Making public affairs transparent in the policy making process;
2. Administrative enforcement supervision system
3. Electronic supervision for major government investment projects
4. Electronic supervision for public bidding and government purchase
5. Electronic supervision for transfer of land use rights
6. Electronic supervision for transfer of property use rights
7. Electronic supervision for implementation of government orders
8. Electronic supervision for efficiency of offence-reporting offices(for public petitions and citizen’s visits)
9. Electronic supervision for united administrative procedures
10. Electronic supervision for Bureau of Taxation
11. Electronic supervision for government emergency management system
On October 27th 2005, the Committee of People’s Council approved the preamble of the United Nations Convention against Corruption. The Shenzhen electronic supervision system and the quest of the Shenzhen authorities for more transparent government made the public optimistic about anti-corruption fight by introducing the advanced information and technology to government administration and standardizing government operations and public services. It advanced the prevention of corruption by eliminating its root causes. The establishment of government websites for open information and resources and the announcement of Administrative Approval and Enforcement Law also subjected government to public supervision and to checks and balances from other public agencies. The Chinese government strongly intends to continue reforming its administrative system and advance the development of a state E-Integrity system.

However some questions remain about the E-integrity system:

1. What are the fundamental procedures in the building of a E-Integrity system?

2. What are the different functions of the electronic supervision system between the administrative process and administrative enforcement process?

3. How should we evaluate the effectiveness of government behaviors by using the E-Integrity system?

4. What are the advantages and disadvantages of the E-Integrity system? How do you evaluate the effectiveness of the system.

These need to be addressed for the system to be effectively implemented.