

# Thousands of officials punished in China's anti-corruption purge

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Over the past weeks, Hong Kong and Guangdong-based newspapers have documented the exposure of an elaborate smuggling operation last year in the Special Economic Zone of Xiamen, located in China's Fujian province directly across from Taiwan. Named Major Case 4-20, it is being touted as the largest corruption scandal since the establishment of the Peoples Republic of China.

At the centre of the accusations is the Yuanhua or Fairwell Group, a consortium of real estate and property development companies owned by Lai Changxing, one of the richest entrepreneurs in Xiamen. Before being closed down, with its assets confiscated, Fairwell was in the process of constructing an 88-storey skyscraper and a two tower, 30-storey international hotel. The company also owned Xiamen's soccer team, a theme park that is one of Xiamen's major tourist attractions and the exclusive Red Mansion resort that was frequented by leading military officers and the local political elite.

Utilising a network of contacts in Hong Kong, Taiwan and in the Xiamen and Fujian governments, Lai Changxing organised the shipment of goods such as oil and petroleum products, rubber, semiconductors, cigarettes, mobile phones and luxury cars, avoiding payment of import duties and tariffs. An estimated \$US9.5 billion of goods were smuggled into China over the course of several years, unloaded at a Fairwell dock in the port of Xiamen and sold throughout Fujian province at a lucrative profit. Police and customs officials protected the racket's activities.

Since an official investigation began late last August, all government and party officials in Fujian province have been banned from leaving China. At least one trial has already taken place. Those alleged to have been on Fairwell's payroll include Lan Fu, Xiamen's vice-mayor in charge of foreign trading and security; most of the leaders of the Xiamen Communist Party branch; the deputy chief of the Fujian police; the chief of police in Fujian's capital of Fuzhou; the heads of Xiamen's Customs, Security and Telecommunications bureaus; and the Xiamen branch managers of China's three largest banks. A vice-governor of Fujian may also face allegations.

More than 150 other senior officials in Xiamen have been detained. Hundreds of police, military and customs personnel have been questioned. Also implicated is Xu Ganlu, a former head of security in Xiamen who was promoted in 1996 to director of the Exit and Entry Administration, one of the highest posts in the Ministry for Public Security. He has been placed under house arrest.

On Wednesday, a spokesman for the Chinese government denied reports by senior *Washington Post* journalist John Pomfret that Fujian's largest state-owned import-export corporation, China (Fujian) Trade Holdings, and its former head Lin Youfang, were involved.

Lin Youfang is the wife of the Beijing Communist party boss Jia Qinglin, one of the most powerful political figures in China. Before moving to Beijing in 1997 he was Communist party secretary in Fujian.

He sits on the 22-member Politbureau, is a close confidante of President Jiang Zemin and opened the PRC's 50th anniversary celebration last

October 1. Last Thursday, Lin Youfang made an unprecedented appearance on state television to prove she was not under arrest and deny any involvement in the Xiamen scandal. The Chinese government has also denied allegations of involvement by relatives of General Liu Huaqing, a former Politbureau member and currently the vice-chairman of the powerful Central Military Commission.

According to the most recent information in the *Guangzhou Daily*, some 400 anti-graft police, headed by China's top anti-corruption prosecutor Liu Liying, are investigating the case. The newspaper reported on January 22 that "as investigators dig deeper and deeper, they find not only more people involved but people at a higher level of government". The investigation has extended from Xiamen to Fuzhou and another major city, Zhangzhou.

The lurid details about the goings-on in Xiamen put flesh and blood on a staggering statistic released on January 12 by Wei Jianxing, the head of the Chinese regime's Central Commission for Discipline Inspection. In the last 12 months over 130,000 cases of official corruption have been investigated and more than 132,000 government and Communist party officials punished, including 17 ministers.

The crackdown was signaled in December 1998 with the beginning of "The Three Stresses" campaign, consisting of the upholding of state ideology or one-party rule; obedience to the central government; and combating corruption. Extended across the country last June, the campaign demanded that all government officials and managers of state-owned firms attend a series of day-long criticism sessions in which lower functionaries were encouraged to denounce the conduct of their superiors.

The result of the "Three Stresses" was a dramatic intensification in corruption investigations in the second half of 1999. China's public prosecutors office had reported that in the first half of the year it had investigated corruption allegations against 1,000 Communist party and government officials, 3,466 judiciary officials, 1,769 financial officials and 7,886 managers of state-owned enterprises—a total of around 14,000 individuals.

As well as Fujian, crackdowns have taken place in the coastal provinces of Guangdong, Hainan, Zhejiang, Jiangsu, Shandong, Liaoning and the Beijing and Shanghai municipalities—that is, in most of China's key economic regions. As well as action against smuggling rings and bribetaking by government officials, national campaigns were conducted last year against foreign exchange fraud, the manipulation of prices, abuse of police power, interference by local authorities in the courts and the misuse of public construction funds. As a result, thousands of provincial and city government officials have been purged.

The purge within the government is being directed from the highest level. President Jiang Zemin initiated the "Three Stresses" campaign and Premier Zhu Rongji has made numerous speeches denouncing corruption as an obstacle to the development of China's economy and entry into the World Trade Organisation. Last August, the national auditor general brought down a report that declared \$US14.2 billion in taxation

revenue—over 20 percent of the budget—had been misappropriated by government officials and that action had to be taken to recover it.

With the New Year, there is every sign the campaign is being escalated. The main Communist Party organ, the *Peoples Daily*, featured a four-part series from January 10-14 on the struggle for "clean government," which included a litany of abuses by officials and the actions against it by the central authorities.

At a meeting of the Central Commission for Discipline Inspection on January 12-14, unit head Wei Jianxing unveiled new anti-corruption laws banning government officials accepting gifts or employing members of their family within areas under their administration. He stated: "In a market economy officials need to be conscious of the separation between public and private affairs".

Addressing the meeting on January 14, Jiang Zemin declared: "All party members should keep a clear mind about this: there is danger ahead if party control and discipline are slack". He described the key reason for corruption as "party organisation and leadership is lax in a great number of regions and units". He stated that: "No matter who it is, no matter how high the post, those who deserve punishment will be punished... There will be absolutely no leniency".

Describing the initial restoration of capitalism in his valuable work *The Deng Xiaoping Era*, author Maurice Meisner noted: "By the mid-1980s Deng Xiaoping's much celebrated market reforms had produced a capitalist economy that revolved around the use of political power for personal profit. That it was an economic system based on official corruption was hardly a secret in Chinese society".

With the legitimisation of private property, by the end of the 1980s entire networks of regional and local bureaucratic patronage emerged, especially in the eastern coastal regions that were attracting substantial foreign direct investment. What has been revealed about the Xiamen Special Economic Zone is by no means an isolated occurrence. The ability to make profit in China has in large measure depended upon the necessary political connections or *quanxi*. A characteristic shared by many of China's private entrepreneurs is that they, or their fathers, were leading Stalinist officials who acquired their initial private wealth through the plunder of state assets.

Jiang's remarks about "danger ahead" points to what is without question a consideration in the corruption purge: the sensitivity of the Beijing regime to the widespread alienation among the working class and peasant masses. The all-pervasive corruption and gross social inequality is a major social grievance among the Chinese working people. It was one of the central causes of the 1989 Tiananmen Square protests and one of the appeals of the banned Falun Gong movement to ordinary people has been its denunciations of the loss of morality in society—an indirect criticism of the regime.

Social tensions are now far more explosive than 11 years ago. Last year alone some 60,000 protests took place over unpaid wages and pensions, excessive taxation and other official abuses of authority. In a January 24 report by the *Hong Kong Standard*, the director of Public Security in Guangdong, Chen Shaoji, described massive protests across the province last year, triggered by widespread bank failures and a series of related corruption scandals. He described 1999 as "the most difficult period since we implemented the open-door policy [in 1979]".

Beijing is also using the corruption scandals to strengthen its control over the regions. With the international experiences of the disintegration of Yugoslavia and the Soviet Union in mind, Beijing has sought to reverse the relative regional autonomy from the central government that developed in the 1990s and end the existence of local power bases.

In 1998 the Peoples Liberation Army was ordered to divest itself of its considerable and highly regionalised business activities. In the same year the government of Guangdong was almost totally purged and replaced with figures selected by Beijing. One aspect of the current corruption

purge, as in the case of the Falun Gong crackdown, is the central government's assertion of control over the provinces and state apparatus and the elimination of any potential rival.

The purpose of the crackdown on corruption, however, goes beyond an attempt to forestall social discontent and to maintain a strong central government. Economic factors are also in play. One of most significant social changes in China is that, two decades after the first free market reforms, a definable class of capitalists has emerged that is no longer dependent upon bureaucratic position for its accumulation of wealth. It now holds ownership of considerable productive and financial capital in the form of property, shares and private businesses.

Weighed against the local networks of politically-sponsored smugglers, black marketers and extortionists, are the interests of China's major domestic companies. While still euphemistically called state-owned enterprises, they are in fact share-listed and traded daily on the Shanghai, Shenzhen and Hong Kong stock markets. Eight of them rank in the *Fortune* magazine 500 largest corporations in the world and Chinese oil and steel companies are preparing to list on Wall Street. Also growing rapidly in economic and political clout are the thousands of privately owned companies that now have equal legal status to state-owned companies and can gain export-import licenses.

Oil provides one example of the conflict of interests. It is estimated that 42 million barrels of oil were smuggled into China during 1998 and sold at lower prices than those charged by the dominant oil corporations, under conditions of economic deflation and falling corporate profits. Similar situations could be cited for virtually all commodities. The smuggling crackdown resulted in government revenue from import duties increasing by 78 percent in 1999 and unquestionably contributed to the rise in profitability for numbers of Chinese companies.

Pressure to control the corruption of government officials is also coming from transnational corporations and Western governments. With China's impending entry into the World Trade Organisation and the slashing of tariffs and other trade barriers, foreign capital will be able to operate with unprecedented freedom in the domestic economy. As with the attack on "crony capitalism" in other parts of Asia, transnational companies will not tolerate the obstacles placed in their way by having to pay-off tier after tier of bureaucracy to get their products into the market.

The national regime in Beijing is attempting a transition from being the highest level of a vast Stalinist bureaucratic stratum into being the efficient instrument of a Chinese capitalist class and international investors. In the process, it is being forced to undermine layers of the bureaucracy beneath it and millions of officials are losing access to long-held privileges, generating frictions and tensions.



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