



# **The Chinese Mafia**

Organized Crime, Corruption,  
and Extra-Legal Protection

PENG WANG

Clarendon Studies in Criminology

## THE CHINESE MAFIA

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and Extra-legal Protection

**PENG WANG**

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*For Jingyi*



## General Editors' Introduction

*Clarendon Studies in Criminology* aims to provide a forum for outstanding empirical and theoretical work in all aspects of criminology and criminal justice, broadly understood. The Editors welcome submissions from established scholars, as well as excellent PhD work. The *Series* was inaugurated in 1994, with Roger Hood as its first General Editor, following discussions between Oxford University Press and three criminology centres. It is edited under the auspices of these three centres: the Cambridge Institute of Criminology, the Mannheim Centre for Criminology at the London School of Economics, and the Centre for Criminology at the University of Oxford. Each supplies members of the Editorial Board and, in turn, the Series Editor or Editors.

Peng Wang's book *The Chinese Mafia: Organised Crime, Corruption and Extra-legal Protection*, based on his PhD thesis from King's College London, gives an insight into what the world might look like if the rule of law was only partially operational, or indeed, broke down altogether. The need for extra-legal protection and enforcement becomes evident. Wang's book is not the first to explore these issues. Gambetta's (1993) *The Sicilian Mafia* traced the role of a weak state, a weak judicial system, rampant corruption and an urgent need to protect private property rights as the precursors to the emergence of the Sicilian Mafia. Varese's (2001) study of the Russian Mafia documented similar themes. But Wang's book is based in China, where the authoritarian party-state is strong, albeit seemingly not strong enough to resist the rise of a Chinese Mafia, or protect its own government officials. Peng Wang is the first to offer a scholarly account of the rise of the Chinese Mafia in the post Mao-era. This is not a historical study of Chinese secret societies, like the Shanghai Green Gang, or of the Triads. It is a contemporary study of the collusion between organized crime and state corruption. And one that was conducted at a time of massive economic expansion in China, and during a period when China was reaching out to world. The financial gains to be made were spectacular.

Through the use of published materials and his careful empirical work based on interviews and focus group discussions in two



Chinese cities, Qufu and Chongqing, Wang documents two major types of extra-legal networks, those of the Black Mafia and the Red Mafia. He traces the distinctions between them and charts the important role to both of *guanxi*: a Chinese variant on the concept of social capital, which manifests itself in a network of secret secure channels to frustrate criminal investigation and forestall punishment. The Black Mafia, essentially a street-gang based organisation, are more in keeping with stereotypical understandings of the mafia with an emphasis on the use of threats and violence to provide extra-legal protection. The Red Mafia embrace corrupt government networks, and facilitate private protection through the abuse of power, albeit they are partially reliant on the Black Mafia for enforcement. Wang documents how the Red Mafia have also begun to infiltrate and commandeer organised crime groups generally. Both 'Red and Black' are supported by *guanxi*, which parallels the legal system; *guanxi* both supplants the rule of law and promotes corrupt networks between criminals and government officials.

The nexus between the Red and Black Mafia is essential to both protection and enforcement activities. Whilst visible, these processes are neither transparent nor open; tangible and intangible reciprocity between officials and criminals ensures continuity, but it is self-perpetuating. It is therefore of some small comfort that Wang asserts that there is no evidence to show that 'criminal organisations have established mutually beneficial networks with top politicians.' Indeed, the Chinese government have organised a series of campaigns to tackle the Red Mafia, and the latest initiative, under President Xi Jinping, is, as Wang acknowledges, multifaceted and long-term, targeting both high ranking and junior officials. Yet even these initiatives appear doomed to fail, as their focus on the swiftness and severity of punishment both undermines due process and fails to emphasise certainty of punishment through its selective approach. Some are favoured, some are not. And as criminologists know from studies of incapacitation, creating a vacuum by removing deviant elements can simply free-up space for new illegal activity. Tackling corruption is enormously complex, and, as Wang argues, arguably more so within a one-party state.

The *guanxi* network also twists the theory of property rights as the key factor underlying the emergence of the Chinese mafias to focus on the role of economic factors and their embeddedness in domestic social structural contexts. Visible social relations are

critical. It is, of course, curious as to why businesses that do not trust the available formal legal protections would trust criminal groups to provide reliable services. However, Wang explains why and how the *guanxi* networks facilitate trust, organize recognised markets and prevent extortion by government officials by using the conduit of street gangs in whom 'personal affection' and 'friendship' have been invested. These, in turn, provide reliable methods of debt collection when official routes cannot. Wang carefully documents the extent and reach of these activities, from the distribution of public appointments to the protection of illegal entrepreneurs; or as he puts it 'the buying and selling of public appointments (*maiguan maiguan*), the collusion between public officials and businesspeople (*guanshang goujie*), and the nexus between law enforcers and gangsters (*guanfei yijia*)'. Illustrations in his book cover, for example, the buying and selling of military positions; the political business alliances between senior public officials and business elites; and the hybrids of hospital staff and criminal groups who, under the guise of hospital security, repel aggrieved patients, relatives and their personal enforcers. Thus do Tian'an (for the hospital) confront Yi Nao (for the victims). Where trust between doctors and patients has broken down, the smooth running a hospital would be jeopardized without 'security'. But it is a 'security' for which hospitals pay extortionate – in the true sense of the word – rates.

Gaining an understanding of organized crime facilitated by public corruption in China would be beyond most criminologists without this study in the Clarendon Series. As Wang explains, whilst the multi-dimensional nature of organised crime has been previously explored, his focus on Chinese mafia practices is unique. It is the detail of his case studies which is so powerful, and the documenting of a shift from hard to soft violence which is so chilling. The former can be dealt with officially; the latter, with its psychological trauma for victims, proves largely beyond redress by the state and is thus most cost-effective to those who employ it. And whilst many PhD students will bemoan the difficulties of conducting their research, Wang merely observes that although working in his small home city enabled access, via his family's *guanxi* networks, to the 'street-gang' elements of his research, the examination of corrupt officials had to be conducted in the much larger city of Chongqing with its 30 million population. Fears for his safety, and that of his family, necessitated this. A telling moment in his introduction.

Wang's narrative is compelling both because it documents a society seemingly so different from those of the West, and because the text is unsettling when viewed through Western eyes. Many of the practices are not so markedly different to those we might recognise, albeit largely on a different part of a spectrum which embraces both corruption and preferment. His research should give us pause for reflection; indeed, his concluding observations are profound. It is the conditions of selective enforcement of the law and the effective by-passing of the rule of law that have allowed the Chinese mafia to flourish.

As Editors we commend Peng Wang's book as making significant contributions to the fields of criminology and penology. *The Chinese Mafia: Organised Crime, Corruption and Extra-Legal Protection* is to be most warmly welcomed to the *Clarendon Studies in Criminology* Series.

Jill Peay and Tim Newburn  
London School of Economics and Political Science  
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Peng Wang



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# **PART I**

## **Theory and History**



# 1

## Introduction

### Socio-economic Studies of the Mafia

On 18 May 2012, Lai Changxing, a 53-year-old billionaire entrepreneur, was sentenced to life imprisonment by a court in Xiamen, a port city in south-eastern China. According to Xinhua, the official Chinese news agency, he smuggled 27.4 billion RMB of goods between 1995 and 1999 (Xinhua 2012d). Lai's company, the Yuanhua group, collaborated with other firms and organized crime groups based in Xiamen and Hong Kong to smuggle a wide variety of goods including vegetable oil, automobiles, cigarettes, electronics, chemicals, pharmaceuticals, and textiles (Jacobs 2012). The smuggling resulted in the evasion of an estimated 13.99 billion RMB in taxes, about 15 per cent of the nationwide revenues from import tariffs in 1998.

Mr Lai was also found guilty of bribing sixty-four government officials with cars, cash, and real estate valued at more than 39 million RMB. Lai's corrupt network of officials, as Shieh (2005: 75) argues, 'was drawn from a variety of functional areas: party and government leaders; customs; public security; state security; tax and banking; enterprise managers; and even the military'. The Xiamen smuggling case brought down many high-ranking officials at both national and regional levels, for example, Ji Shengde, head of military intelligence for the People's Liberation Army; Li Jizhou, deputy minister of public security; Lan Fu, deputy mayor of Xiamen; Liu Feng, deputy party chief of Xiamen; Zhuang Rushun, deputy head of the Fujian provincial Public Security Bureau; and Yang Qianxian, head of Xiamen Customs (Xinhua 2012b).

#### 4 Introduction: Socio-economic Studies of the Mafia

Lai's smuggling empire was smashed by the authorities in 1999. This resulted in the investigation of more than 600 people (government officials, customs officers, military personnel, and gangsters), more than 300 of whom were punished for their involvement in the operation (Watts 2012). But master smuggler Lai evaded capture by fleeing to Hong Kong on a tourist visa and making his way to Canada, where he resided in Vancouver. Lai fought a twelve-year legal battle against extradition, claiming that he would face torture or death if deported. He failed to obtain refugee status and was repatriated to China on 23 July 2011 (Xinhua News 2011e).

The Xiamen smuggling case illustrates the dangerous collusion between organized crime, business, and politics that occurred in the late 1990s. In July 2001, the details of the Xiamen smuggling case were revealed by Focus (*jiaodian fangtan*), a renowned Chinese Central Television show in China. Chinese people were very surprised to see such an extensive corrupt network revealed between Lai's Yuanhua Group and government officials at all levels. The Xiamen smuggling case ranks as one of the biggest scandals for the Chinese government, which prefers to regard sophisticated, well-structured organized crime groups as a problem existing only in Western capitalist countries.

The crackdown on the Xiamen smuggling empire took place in 1999, when I was in junior school. The disclosure of corruption in both public and private sectors aroused my interest in the nexus between organized crime and corruption in post-Mao China. Ten years later, when I did my MA in criminology and criminal justice, two particularly important books—Gambetta's *The Sicilian Mafia* (1993) and Varese's *The Russian Mafia* (2001)—encouraged me to take another important step: embarking on a PhD and pursuing a thesis focusing on the Chinese mafia.

The first major challenge for the study of the Chinese mafia is to deal with the problem of definition. Chinese criminologists have a very different understanding of the mafia from that of European scholars such as Diego Gambetta and Federico Varese. The term 'mafia' is widely understood by Chinese authorities and scholars to mean the most influential and best-organized criminal organization in the world, whereas Gambetta defines the mafia as a type of illegal enterprise specializing in the provision of private protection. The book adopts Gambetta's definition and regards the production and distribution of extra-legal protection as a defining feature of the mafia.

## Organized Crime and the Mafia

Organized crime and the mafia are neither synonymous terms nor completely opposite concepts. The mafia can be categorized as one particular part of what is known as organized crime. Since the 1960s, studies of the mafia can be divided into two main lines of thought, namely the traditional and the modernized scientific analysis.

The traditional study of the mafia explores the subculture and structure of mafia groups by adopting criminological and sociological approaches. For example, Hess (1973) looks at a distinct subculture that was and is associated with the strong-arm man—*mafioso*—in Sicily. He maintains that the mafia is a kind of power structure and equates the mafia with organized crime. Similarly, focusing on the study of the Italian-American mafia, Cressey (1967) identifies organized crime and the Mafia/La Cosa Nostra as synonymous phenomena. In his book *Theft of the Nation: The Structure and Operations of Organized Crime in America* (1969), Cressey describes Cosa Nostra as a strict bureaucratic hierarchy consisting of twenty-four ‘families’ located in different cities across the nation, and suggests that the activities of this complex confederation are governed by a ‘commission’ (see also Albinì 1988).

Cressey’s theory provided a foundation for the modern study of organized crime and prompted the enactment of the Omnibus Crime Control Act of 1968 and the Organized Crime Control Act of 1970 (Hobbs and Antonopoulos 2013). Cressey’s understanding of the Italian-American mafia has been disputed by many other scholars, however. For example, Albinì (1988) points out that Cressey’s research suffers from two major shortcomings: first, he limits his historical analysis of organized crime to ‘the period in American history when the Italian and Sicilian immigrants came to America’ (p. 347); second, he fails to critically examine the reliability of the data offered by law enforcement agencies and an informant.

Evidence collected by the Federal Bureau of Investigation since the early 1970s and the prosecution of Cosa Nostra members shows that the Italian-American mafia possessed only limited capability to control illegal businesses, demonstrating that the organization is not ‘a tightly-knit, all-powerful, national syndicate’ (Woodiwiss 2003: 23). Moreover, Cressey’s view of organized



crime, as Hobbs and Antonopoulos (2013: 37) argue, ‘did little justice to the confused, fluid, and essentially entrepreneurial character of most criminal activity and ignores the specific activities and enterprises that lie at the core of what is usually meant by organised crime’.

Since the late 1980s, studies of the mafia have emphasized ‘the economic dimension of the mafia and the role played by mafiosi on both the domestic and international illegal markets’ (Paoli 2002: 57). Arlacchi (1993) offers an essential link between the old and new methods of analysis. As Arlacchi argues, modern mafia studies are abandoning traditional sociological or criminological approaches and turning to economic analyses through the lens of entrepreneurial transformation. The role the mafia plays in legal and illegal arenas has become a key component for later scientific analysis.

Gambetta (1993) suggests that ‘the mafia is a specific economic enterprise, an industry which produces, promotes, and sells private protection’ (p. 1). The commodity with which both the state and the mafia have been most closely associated, he argues, is protection rather than violence. Moreover, the Sicilian mafia is not a brand name; it specifically refers to many small-scale groups that deal in protection in both legal and illegal markets. The apparent distinction between organized crime and the mafia is that ‘the mafia supplies, first and foremost, the organizing force; mafiosi and illegal dealers are not one and the same, the latter are usually independent economic agents licensed and protected by the former’ (Gambetta, 1993: 227).

In parallel with Gambetta, Varese (2010) makes a clear distinction between an organized crime group which ‘attempts to regulate and control the production and distribution of a given commodity or service unlawfully’ (p. 14) and a mafia group which ‘is a type of organized crime group that attempts to control the supply of protection’ (p. 17).

### **An Economic Theory of the Mafia**

Diego Gambetta and his colleagues who write on the economics of the mafia focus their attention on two main aspects: the relationship between state failure and mafia emergence, and the commodity—protection—that is most closely associated with the mafia.

### *The 'property-right theory of mafia emergence'*

The 'property-right theory of mafia emergence' generated by Gambetta in *The Sicilian Mafia* (1993) has become the most influential theory that explains how the mafia has emerged in transitional countries. Gambetta's theoretical framework centres on the two most significant factors traditionally and directly related to the rise of the mafia: the demand for protection and its supply. According to Gambetta, the emergence of a mafia is directly linked to a weak state where the legal framework is confusing, the definition of property rights ambiguous, the judicial system weak, enforcement limited, and corruption rampant.

Focusing on Sicily, Gambetta shows that the rise of the Sicilian mafia is due to the lack of public protection of private property rights. Private property rights were widely established by the early nineteenth century, when Sicily began its transition from a feudal society to a modern society. This transition inevitably increased the number of property transactions, which in turn led to huge demand for protection, because private property owners exposed themselves to great danger in the atmosphere of deep distrust that pervaded Southern Italy. However, property rights were not properly defined and protected due to the absence of effective systems of justice and law enforcement. The failure of the legal framework and state-sponsored institutions to provide sufficient protection for property rights and commercial transactions led to an urgent need for private enforcement mechanisms that could fill the vacuum. The Sicilian mafia as a profit-motivated protection and enforcement mechanism therefore emerged as a substitute for the state, providing private protection in a majority of market transactions.

The conditions for mafia emergence suggested by Gambetta appear not to be unique to nineteenth-century Sicily. The existing literature illustrates that the 'property-right theory of mafia emergence' has exerted great influence on studies of mafias and extra-legal governance around the world, such as the Hong Kong triads (Chu 2000), the Russian mafia (Varese 1994, 2001), the Japanese Yakuza (Hill 2003), mafia transplantation (Varese 2006, 2011a, 2011b; Campana 2011a), extra-legal protection in Bulgaria (Tzvetkova 2008), and prison gangs (Skarbek 2014).

Influenced by Gambetta, Chu (2000) looks at how triad societies in Hong Kong supply genuine protection to businesspeople in the legal, illegal, and international markets. According to Chu, triad

members sometimes perform two roles in the market—protector and entrepreneur—at the same time. Chu suggests that individual triad members usually spend the ‘protection capital’ in the business, in which case triad members are professional protectors; if a triad member is involved in legal or illegal business without exploiting the reputation of his triad society, on the other hand, he can be simply regarded as an ordinary entrepreneur.

Varese’s study of the Russian mafia successfully transplants the ‘property-right theory’ to interpret the rise of the mafia in another transitional country. He emphasizes that the development of property rights in Russia’s economic transition from a command economy to a market economy was the key factor that prompted the birth of the Russian mafia. Just as in Sicily, the economic transition brought ‘a dramatic increase in the number of property owners and in transactions among individuals with property rights’; however, the Russian government failed to establish well-functioning institutions, including ‘a system of clearly defined property rights, a swift and effective court system, and a credible police that deters crime’ (Varese 2001: 1). As a result, the Russian mafia emerged to supply private protection for both legal and illegal markets.

The economic theory of mafia emergence has also been applied to post-feudal Japan, where mafia-like organizations developed from a common starting point. Hill (2003) maintains that the Yakuza emerged when Japan was in a significantly weakened state after its social, legal, and economic structures had undergone tremendous change. The collapse of an economic bubble, as well as inefficient formal mechanisms of enforcement and dispute resolution, created a favourable situation for the development of criminal protection associations such as the Yakuza. In parallel with Hill’s viewpoint, Milhaupt and West (2000) argue that inefficient formal legal structures lead to the emergence of organized crime groups providing property rights protection services.

### *Mafia protection*

Using historical and empirical evidence, Gambetta (1993: 76) suggests that the mafia in southern Italy is defined as an industry (or economic governance) consisting of firms that make their money mainly through the supply of extra-legal protection. Protection, guarantees, and enforcement are the most specialized commodity that the mafia produces and sells (Gambetta 1988).

Gambetta further points out that protection offered by the mafia is a profitable commodity rather than a public service, and what makes a person a mafioso is that 'he is capable of protecting himself against cheats and competitors' (Gambetta 1988: 130). Regarding the provision of protection, a mafia differs from a minimal state in two crucial aspects: first, a mafia makes no attempt to provide protection for everyone in its domain; second, a mafia appears to allow private enforcement of a person's rights within its boundaries (Nozick 1974; Gambetta 1993).

The mafia literature shows that mafia protection has both positive and negative consequences. On the one hand, mafia protection causes damage to society by promoting inefficiency and reducing competition (Varese 2014). Protection offered by mafias is a kind of commodity that requires individuals to pay 'tax' in order to exercise the right to use mafia services. It thus brings negative consequences to those who do not want to buy. For instance, self-protected insiders have to expose themselves to harm or danger (Gambetta 1993). Moreover, mafias are profit-oriented criminal enterprises, thus mafia services (e.g. protection and enforcement) are offered regardless of the principles of justice and fairness. From this perspective, the real service that the mafia offers, apart from protection, is extortion.

On the other hand, a number of studies show that mafia groups often do provide genuine protection for customers not only in criminal markets but also in legitimate ones (Gambetta 1993; Varese 2001; Hill 2003; Tzvetkova 2008). For example, in *The Triads as Business* (2000), Chu stresses that a mafia is frequently invited by business entrepreneurs to deter new competitors and assist their monopolization of the market. Drawing on a comprehensive literature review, Varese (2010) demonstrates that mafias do provide various kinds of genuine services:

Mafias are able to supply genuine services like protection against extortion, protection against theft and police harassment; protection in relation to credit obtained informally and the retrieval of loans; and the settlement of a variety of social disputes. The Mafia offers protection services to entrepreneurs of illegal commodities, such as protection for thieves, prostitutes, loan sharks and drug dealers. Mafiosi also protect their clients against law enforcement. (p. 17)

Extortion and protection, as Varese (2010: 18) further points out, are 'a matter of perspective'. In parallel, Chu (2000), in his analysis of how triad societies infiltrate Hong Kong's legal markets, points out the dual character of mafia protection.

The business community is not necessarily the victim of triad societies; companies that employ triads to settle their business conflicts are in fact the direct beneficiaries. The victims are those who are forced out of markets by the triads. Consumers may suffer too because they pay a higher price for relatively low-quality goods or services. (p. 123)

Like other kinds of organized crime groups, the essential goal of a mafia is maximizing its profit. The choices (e.g. extortion or protection, high or low quality of services) are made principally with an eye to the prosperity or stability of the protection business. Mafias tend to provide protection of high quality (and even at low cost) if they foresee that the protection business will generate long-term regular income (Varese 2014). Otherwise, mafia groups will turn to extortion in order to increase immediate profits, regardless of long-term interests. Perceived (in)stability of the protection business seems to be the most important factor that determines the extent to which mafias will sell bogus protection (Gambetta 1993; Chu 2000; Varese 2001, 2010; Hill 2003).

### **The Embeddedness of Mafia Protection in Social Relations**

It is undeniable that the study of mafias has been dominated by a number of European sociologists, especially Diego Gambetta and Federico Varese. They have made great efforts to identify a single theoretical framework—the Sicilian model of mafia emergence or the ‘property-right theory of mafia emergence’—that can be used to explain the origins of mafias across time, space, and cultures. The wide-scale application of Gambetta’s economic theory is due to socio-economic convergence among transitional countries: the quick and widespread creation of private property rights is associated with a comparatively underdeveloped formal legal system protecting these newly established rights.

The dominance of Gambetta’s theory in the study of mafias has meant that much of the empirical work produced in other countries or areas (e.g. Russia, Japan, Hong Kong, and Bulgaria) has focused on testing and reproducing Gambetta’s concepts and mafia theories. The perception of ‘global mafia’ encouraged existing studies to limit their focus to examining the similarities of the mafia phenomenon in different countries or areas rather than focusing on identifying and explaining differences. This seriously undermines local meanings and understandings of the mafia. The study

of mafias, therefore, needs to take historical, political, and cultural divergences into consideration.

The Chinese mafia phenomenon, like any other mafia, must be understood within the particular culture of the country, incorporating historical and political analysis. The ‘property-right theory of mafia emergence’, centring on the theoretical framework of supply and demand for mafia services, oversimplifies the process of mafia emergence. Economic sociologists such as Mark Granovetter argue that ‘economic action is embedded in structures of social relations, in modern industrial society’ (Granovetter 1985: 481). Economic action can be regarded as a subset of social action that is constrained by on-going social relations (Avgerou and Li 2013; Granovetter 1992; Weber 1978). ‘Embeddedness’, as Granovetter (1992: 25) argues, refers to ‘the fact that economic action and outcomes, like all social action and outcomes, are affected by actors’ dyadic (pairwise) relations and by the structure of the overall network of relationships’.

In parallel with Granovetter’s argument on embeddedness, fieldwork data in China suggests that economic behaviour of individuals (e.g. the buying and selling of extra-legal protection) is embedded in a particular social structural context—a *guanxi* network—rather than dictated by purely economic considerations. This book will argue that the emergence of the mafia is not only driven by the invisible hand of market mechanisms but also by the visible hand of social relations.

Drawing on published materials and fieldwork data, this book establishes a new theory—the ‘socio-economic theory of mafias’—by combining Gambetta’s economic theories and Granovetter’s notion of social embeddedness. In other words, it incorporates local conditions—the negative effects of *guanxi* practice—into the discussion of state failure and the rise of extra-legal protectors. Key arguments of this book include: first, that the coexistence of *guanxi* and the formal legal system prevents state-sponsored law enforcement agencies from providing equal and sufficient protection for private property owners, prompting them to seek protection and enforcement services from street gangs (Black Mafia); second, that the social embeddedness of public officials in *guanxi* networks encourages or even forces these officials to satisfy their *guanxi* members’ needs regardless of laws, administrative regulations, and rules, resulting in the involvement of corrupt public officials in supplying private protection (Red Mafia); third, that the buying and

selling of extra-legal protection services is dictated by trust and reputation within the guanxi network.

### *Red Mafia and Black Mafia*

The author's empirical research in China suggests that Chinese businesses do not always trust the legal protection offered by state-sponsored institutions and legitimate private agencies. Instead, they frequently purchase extra-legal protection services supplied by organized crime groups and corrupt government officials. Mafia scholars limit their attention to the relationship between state failure and the rise of mafias in transitional countries and demonstrate that mafia groups function as quasi-governmental institutions providing private protection (Gambetta 1993). This book differs from previous research by not only analysing the emergence of criminal groups specializing in the provision of private protection but also emphasizing the role of corrupt public officials in the production and distribution of unlawful enforcement and protection services.<sup>1</sup>

This book examines two major types of extra-legal protectors in contemporary China: Red Mafia (corrupt public officials) and Black Mafia (street gangs). 'Red' is not only the symbolic colour of the Chinese Communist Party (CCP) but also the colour of all public officials, because the CCP monopolizes the four branches of government (legislative, executive, judicial, and military). 'Red Mafia', therefore, is the proper term to describe corrupt public officials who sell extra-legal protection by abusing their power and office. The main categories of Red Mafia services include safeguarding organized crime groups and protecting illegal entrepreneurs in the criminal underworld, supplying insider information and protection for businesses or individuals, sheltering subordinates' corrupt transactions, and distributing public appointments regardless of bureaucratic norms and regulations. 'Protection' provided by the Red Mafia is therefore equal to corrupt benefits produced by government officials' abuse of power and distributed mainly through corrupt guanxi networks.

<sup>1</sup> Federico Varese in *The Russian Mafia* (2001) offers a thorough discussion of the different types of 'protectors' that populated the market for protection in post-Soviet Russia (see pp. 55–75; pp. 188–89). His arguments contributed greatly to this author's understanding of the rise of extra-legal protection in mainland China.

The Black Mafia is also an important type of supplier in China's extra-legal protection markets. Black is the colour representing evil. For example, Chinese authorities and scholars tend to call criminal groups 'black societies'. It is thus logical to use the term 'Black Mafia' to refer to street gangs that provide extra-legal means of dispute resolution, quasi law enforcement, and private protection. The distribution of these gang services is largely dependent on gangsters' *guanxi* networks.

*The role of guanxi in facilitating the rise of extra-legal protectors*

*Guanxi*, a Chinese version of social capital, is morally neutral. It is a term applied indiscriminately by Chinese people to all forms of horizontal and vertical dyadic ties. But the consequences of practising *guanxi* are both positive to negative. In Chinese society, *guanxi* functions alongside the formal legal system. *Guanxi* is an informal institution which complements, and sometimes substitutes for, the formal legal system in China. In fieldwork, *guanxi* or the *guanxi* network was spontaneously identified by most interviewees as an important mechanism that protects their rights, facilitates transactions, and guarantees the quality of services. From this perspective, the practice of *guanxi* benefits all society.

However, the negative consequences of *guanxi* practice cannot be ignored. Certain kinds of *guanxi* practice are closely associated with corrupt behaviour, such as favouritism and nepotism (Luo 2008). As Battersby et al. (2011) find, *guanxi* practices in Chinese business merge with 'patterns of patron-client relationship' where the *guanxi* principles of reciprocity and *mianzi* (face) violate bureaucratic norms and undermine the rule of law. Similarly, anecdotal evidence in this book reveals the importance of *guanxi* to three different groups of people. First, businesspeople frequently make use of *guanxi* networks to obtain under-priced resources from the state allocation agencies; second, gang bosses develop *guanxi* ties with local police officers to avoid criminal investigation and punishment; and third, public officials make use of private connections with their superiors to buy promotions.

If cultural differences in network practices are set aside, *guanxi* practice in China might be equated with the practice of personal networking in the West. The role of personal connections, however,



differs according to whether a country has a strong or a weak institutional environment. The negative influence of network practices in a transparent country (e.g. the UK or Germany) is limited by progressive social laws and openness of government, while network practices in an opaque country (e.g. China) are seen as corrupting the public administration. Openness and transparency strengthen people's trust in government and protect the decision-making mechanism from the demands of personal connections. The opaque nature of the Chinese government, however, makes it difficult to see how public policy is developed and how the civil service operates, creating favourable conditions for people to employ personal connections (i.e. *guanxi*) rather than formal rules to get things done. This negative aspect of *guanxi* practice in the context of China's weak institutional environment emphasizes the importance of incorporating an analysis of these aspects into the examination of corruption and the rise of extra-legal protection.

The socio-economic theory of mafia emergence generated by this book focuses on the dark side of *guanxi* practice and examines the way in which it subverts legal institutions and facilitates the rise of extra-legal protectors. Utilizing individual interviews and focus group discussions, this book investigates how extra-legal protectors emerge, evolve, and operate in China's rapidly changing socio-economic context. It firstly examines how the practice of *guanxi* violates the rule of law. The clash between *guanxi* and the formal legal system prevents law enforcement agencies from being able to provide sufficient protection for citizens, leading to street gangsters' involvement in selling extra-legal protection and quasi law enforcement.

This book also shows how that the embeddedness of administrative, police, and judicial activities in *guanxi* networks makes the government unable to prevent public servants from abusing power to meet demands from *guanxi* members. Such embeddedness results in the rise of corrupt transactions, including the buying and selling of public appointments (*maiguan maiguan*), the collusion between public officials and businesspeople (*guan-shang goujie*), and the nexus between law enforcers and gangsters (*guanfei yijia*). The incorporation of *guanxi* into the study of extra-legal protection groups provides a new perspective for understanding corruption and organized crime in contemporary China.

## Contributions to Research

This research contributes to the existing literature in three major ways. First, it enables the analysis of similarity and difference between the Chinese mafia and mafias in other contexts. Publications relating to the Sicilian Mafia (Bandiera 2003; Gambetta 1993), the Russian Mafia (Varese 2001), Hong Kong triads (Chu 2000), the Japanese Yakuza (Hill 2003; Milhaupt and West 2000), and extra-legal protection in Bulgaria (Tzvetkova 2008) have generally been limited to examining the involvement of organized crime groups in the provision of extra-legal protection and the substitutive relationship between the state and the mafia. This book contributes to the existing research by studying two types of mafias—Red Mafia and Black Mafia—and exploring the relationship between three independent systems of order in the Chinese context: the legal system, social relations (i.e. *guanxi*), and the mafia. The book offers local understandings of the Chinese mafia, providing a springboard for global and comparative mafia research.

Second, this research adds value to the examination of the dark side of *guanxi* practice by focusing on the corruption-facilitating roles of *guanxi*. Alongside the growing interest in China's economic and social transformation, the concept of *guanxi* has become a popular academic topic over recent decades (Gold et al. 2002). Past research mainly focused on two aspects of *guanxi*: cultural and institutional (Chang 2011). Cultural scholars view *guanxi* as a specific type of relationship or a unique strategic behaviour deeply rooted in Chinese culture (Dunning and Kim 2007; Park and Luo 2001; Yan 1996a). Institutional theorists define *guanxi* as a Chinese idiom of social capital and networking (Adler and Kwon 2002; Park and Luo 2001; Xin and Pearce 1996).

The relationship between *guanxi* and the legal system has been commonly described as substitutive or complementary (Peng 2003; Potter 2002; Xin and Pearce 1996), but the negative side of *guanxi* practice needs further examination. As this book is based on institutional theories of *guanxi*, it provides an opportunity to examine how *guanxi* practice distorts and subverts the Chinese legal system; it also explores how *guanxi* networks are employed as extra-legal governance protecting corrupt transactions between government officials and locally based criminals.

Third, this research enriches the study of Chinese organized crime. Past research examined the multi-dimensional nature of organized crime in China and beyond. From a global perspective, human smuggling (Bolz 1995; Zhang and Chin 2002), the illegal cigarette trade (von Lampe et al. 2012), and drug trafficking (Chin and Zhang 2007) have been thoroughly explored, and counterfeiting (UNODC 2013), sex trafficking (Chin and Finckenauer 2012), and loan sharking (Soudijn and Zhang 2012) have gained increased attention. From a regional perspective, cross-border crime between mainland China, Hong Kong, and Taiwan (Lo 2009; Vagg 1992) and the mainlandization of Hong Kong- and Taiwan-based criminal groups (Lo 2010; Lo and Kwok 2012; Wang 2012a) have been closely examined in recent years.

From a national perspective, past research focused on the relationship between politics and organized crime (Broadhurst 2013; Chin and Godson 2006; Wang 2013b), and various types of criminal activities such as drug trafficking and distribution (Huang et al. 2012), prostitution (Liu 2012a), robbery (Xu 2009a; 2013), stolen children (Shen et al. 2012), and cigarette counterfeiting (Shen et al. 2010). Extra-legal protection or quasi law enforcement, however, has received surprisingly little attention in discussions of organized crime in China. This book shows that street gangs have shifted their operations from traditional areas (e.g. gambling, prostitution, and drug distribution) to the provision of quasi law enforcement, from which they are obtaining fabulous profits. The author's research complements existing research by examining the involvement of criminal groups in the private protection business.

## **Methodology and Fieldwork**

### *Research design*

This study uses an 'embedded case study' design. It consists of two distinct units of analysis: the general case of extra-legal protection in mainland China and the specific cases of (a) the involvement of street gangs in supplying quasi law enforcement and extra-legal protection in the city of Qufu, (b) the creation of the political-criminal nexus by gang bosses in seeking private protection from police officers in the city of Chongqing, and (c) the employment of *guanxi* networks by corrupt public officials in obtaining and distributing corrupt benefits.

In order to have a clear understanding of street gangs as extra-legal protectors and of the red-black collusion, the author collected data in two Chinese cities (Chongqing and Qufu) from December 2011 to early March 2012. Qufu is a small city and the hometown of the author. The author's family members have established social networks, facilitating access to local businesspeople, the police archive, and local court files. The data collected from Qufu is used to explore why and how individuals and entrepreneurs solve their problems by using the extra-legal protection and quasi law enforcement offered by street gangs. It stresses the importance of *guanxi* in facilitating the buying and selling of extra-legal protection services. In particular, when individuals and entrepreneurs choose to purchase illegal services, they need to take into account the reputation of illegal enforcers in the *guanxi* network. Additionally, in order to obtain high-quality gang services, purchasers must spend time, energy, and money in developing and maintaining close *guanxi* ties with unlawful enforcers. The main obstacle in Qufu is also obvious: evidence about government officials' involvement in selling private protection is extremely difficult to access as there is little archive material, and in-depth interviews would pose significant risks to the author and his relatives.

In Chongqing, on the other hand, it seemed easier to gain access to published materials about how the red-black collusion functions. Chongqing is one of the biggest cities in southwest China, with a population of more than thirty million. The Chongqing government under the leadership of Bo Xilai<sup>2</sup> achieved great success in an anti-mafia and anti-corruption campaign. From June 2009 to November 2011, seventy-seven government officials, including more than twenty senior police officers, were arrested for their involvement in corrupt networks and the supply of extra-legal protection to locally based crime groups (Wang 2014). The Chongqing case illustrates both the existence of corrupt police officers who sell protection to locally based criminals and the emergence of corrupt *guanxi* networks within the criminal justice system. High-ranking

<sup>2</sup> Bo Xilai was a member of the Central Politburo and the Communist Party chief in Chongqing from 2007 to 2012. He was removed from power in March 2012, accused of abusing power, taking bribes, and violating party discipline. For more information, please see: BBC 'Bo Xilai: China Parliament Expels Disgraced Politician', (updated 26 October 2012) <<http://www.bbc.co.uk/news/world-asia-china-20091588>>, accessed 13 March 2013.

officials distribute government appointments within guanxi networks and shelter corrupt transactions between mid- and low-ranking officials and gang bosses (Wang 2013b).

China's ongoing anti-corruption campaign, under the leadership of President Xi Jinping, has managed to crack down on a number of 'tigers' (senior public officials and military officers) and their corrupt guanxi networks. Xi's anti-corruption campaign reveals two distinct types of corruption: the buying and selling of military positions, and the political-business alliance between senior public officials and business elites. In order to present a clear understanding of how corrupt guanxi networks work, the author decided to have a close look at these two corrupt practices. The study of the problem of buying and selling military positions relies on interview data while the study of the political-business alliance is based on data published by the Chinese government.

### *Challenges of fieldwork*

Interpersonal relationships (guanxi) turned out to be the most important resource for the author in the entire research process, including getting research access, obtaining oral informed consent, and collecting reliable information. Through his family members' guanxi networks, the author gained access to interviewees in Qufu. Data collection there involved twenty-two in-depth, semi-structured interviews with police officers, local government officials, entrepreneurs, private (illegal) bankers, lawyers, and judges, as well as eight focus group discussions with a total of twenty-three interviewees including project managers from local construction companies, staff in local hospitals, and government officials. Entrepreneurs and private bankers' experiences, in particular, provided valuable sources of data on the performance of local law enforcement agencies, the rise of debt collection gangs, and the importance of social relations (guanxi) for private enterprises.

During the fieldwork in Chongqing, political factors emerged as a major obstacle in gaining access to interviewees. With the help of Li Ren, a professor at Southwest University of Political Science and Law in Chongqing, the author drafted a list of potential interviewees in advance. The author contacted potential subjects via telephone, email, or instant messaging in order to make appointments before travelling to Chongqing, but all potential participants

rejected the invitation because they were afraid to discuss this sensitive political issue. As an interviewee explained,

According to the Chongqing government, government officials, academics, and even journalists are not allowed to make any criticism of Chongqing's anti-crime campaign. (Journalist B 2011)

The author arrived in Chongqing and started empirical work in December 2011. At first, potential interviewees refused to speak about Chongqing's crime crackdown campaign because they suspected the author might be a plainclothes police officer from the Ministry of Public Security. Moreover, the author failed to gain access to any police reports or court files because officials from the criminal justice system did not trust any researchers from overseas institutions. However, with the help of Li Ren and Mr Xu (a senior prosecutor in Chongqing), the author managed to conduct one focus group discussion with four prosecutors and one police officer as well as nine semi-structured interviews with journalists, academics, prosecutors, taxi drivers, and a lawyer.

Doing fieldwork in China about military corruption is also extremely difficult. Since the start of Hong Kong's Occupy Central movement (the pro-democracy protest initiated by Benny Tai Yiu-ting, a law professor at the University of Hong Kong) in 2014, researchers from Hong Kong are made extremely unwelcome by the Chinese government. Learning from previous fieldwork experience in Chongqing, the author relied on two middlemen (one former and one incumbent military officers) to access potential interviewees. These middlemen took the author to see their close friends, all of whom were active or former military officers. The close ties between middlemen and interviewees, as well as the middlemen's personal experience of working in the military, ensured the reliability and validity of the data collected. In most cases, it was the middlemen who asked questions rather than the author himself; this strategy helped make interviewees feel relaxed and comfortable. Thanks to the great help from the middlemen, the author conducted twenty high-quality interviews with active and former military officers as well as a military researcher.

In order to acquire more data on Chongqing's anti-crime campaign and Xi Jinping's recent anti-corruption drive, the author applied several strategies. First, a close teacher-student relationship enabled the author to conduct interviews with two criminology professors in Shanghai, Qiu Geping and Jin Qigao, who specialize

in research on organized crime and police corruption in China. The comments from both professors provided valuable insights into corrupt guanxi networks. The interviews were followed by frequent email communications with these two professors, which included thorough discussions on the emerging extra-legal protection market and corrupt guanxi networks in contemporary China.

The author was invited by a criminology journal in China, *Issues on Juvenile Crime and Delinquency*, to organize a special discussion concerning extra-legal protection and mafia theories. Two leading criminologists, Diego Gambetta and Federico Varese, offered papers<sup>3</sup> on the origin and development of mafia theories (Gambetta 2013; Varese 2013). In response, two top legal scholars, He Bingsong and Qiu Geping, provided papers criticizing Gambetta's and Varese's papers and offering their own understanding of extra-legal protection in mainland China (He 2012; Qiu 2012). The author also submitted a paper on how to apply mafia theories to mainland China, which received in-depth critiques from Chinese academics (Wang 2013c). Debates among Chinese and European scholars enabled the author to obtain a thorough understanding of mafia theories as well as the unique features of extra-legal protection in China.

The second strategy was to use open source data from China and foreign countries. The Chinese CNKI database provided access to a large number of journal papers, news reports, conference papers, and doctoral theses about the Chongqing crime crackdown and China's anti-corruption campaign. These open materials offered rich details, but their limitation was obvious: almost all these publications lacked evidence of independent thinking due to strict media control in China. The author therefore turned to the viewpoints of Western media, but in order to ensure the reliability of this information, the author mainly focused on mainstream news reports or comments, such as those from *The Times*, the BBC, *The Economist*, *The Telegraph*, *The Guardian*, *The New York Times*, and CNN.

<sup>3</sup> Diego Gambetta and Federico Varese submitted their papers to the Chinese journal in 2012, and it took several months to translate these two papers from English to Chinese, and the Chinese translations were published in 2013. He Bingsong and Qiu Geping wrote their papers based on Gambetta's and Varese's original English submissions and He's and Qiu's papers were published in 2012, a year before the publication of the Chinese translations of Gambetta's and Varese's papers in the same journal.

In particular, this research draws on a series of news articles written by notable journalists, such as Jaime FlorCruz and Malcolm Moore, who have lived and worked in China for many years.

After the removal of Bo Xilai as party chief of Chongqing in March 2012, the author attempted to gain access to police archives and court files. Similar to the first request during the fieldwork in Chongqing, government officials refused to offer any materials. The request for access to police records was also denied, which forced the author to adopt an alternative, third, strategy: the acquisition of government records through private channels. A review of existing Chinese-language literature helped identify a law professor in Chongqing who had published a number of high-quality papers about Chongqing's crime crackdown. A close relationship with the Chongqing government may be what allowed this professor to obtain police and court files. Li Ren employed his social networks to gain access to this law professor, but the professor refused to provide the data he possessed or even his email address. This indicates that Chongqing's anti-mafia campaign is still a politically sensitive topic.

Overall, the author carried out a total of fifty-three individual interviews, nine focus group discussions with a total of twenty-eight participants, an extensive review of published materials and, most significantly, a number of email communications with local professors. In order to ensure coding reliability, all data was coded by the author. The coding process worked as follows: first, a series of valuable news articles and journal papers about extra-legal protection in China were added to complement the fieldwork data. Second, the author read through the materials in printed form and coded manually. Third, the data was arranged on a coding tree with three branches: 'corrupt guanxi networks', 'quasi police organization', and 'the role of guanxi in purchasing extra-legal protection'. Finally, the author went back into the documents and coded them using NVivo (qualitative data research software).

## Outline of This Book

This book consists of three main parts. The first part has two chapters, focusing on theory and history. Following a theoretical discussion about mafia emergence in this chapter, Chapter 2 presents the history of Chinese organized crime in late imperial and modern China (1500–1949) with particular emphasis on the rise



of the Shanghai Green Gang as a pseudo-government in the first half of the twentieth century. A period of warfare between 1912 and 1945 made the Chinese government unable to satisfy people's basic needs; this created favourable conditions for the emergence of private organizations providing protection and enforcement. The Shanghai Green Gang, one of the most powerful criminal syndicates in Chinese history, is analysed to show the links between the fragmented state and the gang's development, and how the gang protected marginalized people and governed the Shanghai criminal underworld.

The second part, consisting of four independent chapters, offers an exploratory study of extra-legal protection in contemporary China. Chapter 3 investigates why the Chinese government fails to provide equal, sufficient, and efficient protection to those who need it by examining the consequences of permitting *guanxi* to coexist with the formal legal system. A thorough review of the existing literature suggests that the juxtaposition of law and *guanxi* does not necessarily result in a positive outcome, and demonstrates that the negative impact of *guanxi* practice on formal institutions results from the increasing intertwinement of *guanxi* practice and corruption.

Chapter 4 elaborates the ways in which local gangs (Black Mafia) take advantage of China's modernization. The Black Mafia emerges when the state fails to meet society's demand for protection. By examining two cases (underground police organizations and in-house hospital security teams), the chapter investigates how gangsters and illegal entrepreneurs offer protection to private individuals and legitimate entrepreneurs, solve medical disputes for local hospitals, and help local and regional authorities deal with the problem of 'nail households' (local residents who refuse to relocate).

Chapter 5 discusses how corrupt public officials (Red Mafia) employ *guanxi* networks to obtain and distribute corrupt benefits. It examines the way in which public officials and businesspeople make use of *guanxi* networks to accumulate wealth and obtain promotion. Corrupt transactions—either within the political sector or between the public and private sectors—are coordinated and safeguarded by corrupt *guanxi* networks. By analysing the corrupt practices of selling military positions and establishing business-politics networks, this chapter looks at how *guanxi* networks minimize the transaction costs of corruption by securing information

transmission, recruiting high-quality members, enforcing agreements, and monitoring members' behaviour.

Chapter 6 focuses on the red-black collusion between police officers and local gangsters. It offers a detailed description of Chongqing's anti-crime and anti-corruption campaign. Analysis of this campaign enables the author to investigate why organized crime groups need protection, how gangsters employ *guanxi* networks to purchase extra-legal protection from corrupt officials, how corrupt officials distribute their unlawful services, and what kinds of services officials provide.

The final part presents reflections and conclusions. By comparing mafias in China and Western countries, notably Italy, Chapter 7 explores the differences between mafias in a democratic state and those in an authoritarian state from three main perspectives: emergence, operation, and relationships with politicians. This comparative study offers implications and directions for future research.

The last chapter examines China's war against mafias by reviewing two major campaigns: the 'strike hard' anti-crime offensive and President Xi Jinping's crusade against corruption. Campaign-style anti-crime and anti-corruption enforcement significantly increases the Chinese government's ability to control crime and corruption in the short term, but campaigns that emphasize the party's tight control of administrative and judicial institutions impede China's long-term goal of establishing the rule of law.

## 2

# Gangs as Pseudo-government

The last 200 years of Chinese history have been characterized by upheaval. China has witnessed radical change in all aspects of the nation's political, economic, and social structure, from the Opium Wars to the end of the feudal period, the warlords, the Nationalist (Kuomintang) government, the Maoist period, and the current period of reform and opening up (Martin 1996). Organized crime groups have successfully taken advantage of these complex and uncertain circumstances to become an integral part of China's transformation from traditional society to modern society.

Chinese organized crime groups have their roots in now-vanished Chinese secret societies. This chapter firstly presents a brief overview of the history of secret societies and argues that the formation of secret societies in China was due to the state's failure to offer sufficient public protection and social welfare to the large lower-class population. It then focuses on the Shanghai Green Gang,<sup>1</sup> the most powerful criminal organization of the late nineteenth and early twentieth centuries. It examines why the Shanghai Green Gang emerged as a kingpin in the Shanghai criminal underworld, how the gang employed gang rules to achieve strong control over its members, and how the gang dominated illegal markets and exerted great influence on legal markets. Efficient cooperation within the gang and extensive networks with warlords, colonial authorities, and the Chiang Kai-shek government were key to the success of the Shanghai Green Gang in that period.

## Chinese Secret Societies

Chinese secret societies (*mimi shehui*) refer to two types of organizations: the secret religious denomination (*mimi jiaomen*) and the

<sup>1</sup> The Shanghai Green Gang, as a major branch of the Green Gang, is a loosely connected group of gangs rather than a unified criminal organization.

secular secret association (*mimi huidang*) (Cai 1987; He 2009a; Qin 2009). The secret religious denomination seems like a subgroup within a religion, but it was an organization that specialized in the systematic use of violence against the state in order to gain political, religious, or ideological goals. The White Lotus Cult (*Bailian Jiao*), established in 1133, and the Patriarch Luo Cult (*Luo Jiao*), established in 1500, were two influential secret religious denominations in ancient China (Ter Haar 1992). The second category, the secular secret association, refers to a mutual-aid and brotherhood organization composed of poor peasants as well as marginalized populations. It is sometimes called the secret or feudal *Banghui* (Qin 2009).

The origins of Chinese organized crime can be traced back to the activities of the secret *Banghui* in the Qing dynasty 1644–1911 (He 2009a). The feudal *Banghui* was similar to the feudal family, but it was not a system based on kinship. *Bang* was organized according to master–disciple relations, while *Hui* was an illegal group of sworn brothers (Zhou and Shao 1993). The amalgamated term ‘*Banghui*’ was in general use by the late nineteenth century. According to He (2009a), there were three major *Banghui* in the Qing dynasty—the Heaven and Earth Society (*Tiandihui*); the Green Gang (*Qingbang*); and the Red Gang (also named the Society of Brothers; *Gelaohui* or *Hongbang*). These *Banghui* organizations had an immense effect on society at that time, and their legacy (e.g. organizational structure, ideology, and subculture) still has a profound influence on organized crime groups in contemporary China.

### *Wars and the rise of secret societies*

Research conducted by Chinese social historians, especially Cai Shaoqing and Qin Baoqi from Nanjing University, suggests that the boom of secret societies in the late eighteenth and nineteenth centuries can be identified as an inevitable outgrowth of the destruction of the small peasant economy and initial development of a capitalist commodity economy (Cai 1987; Qin 2009). During the late Qing dynasty, China experienced a number of wars, including the White Lotus Rebellion (1796–1804), the Opium Wars (1840–1842 and 1856–1860), the Taiping Rebellion (1851–1864), and the Boxer Uprising (1899–1900). Peasant farming systems in the Qing dynasty were seriously destroyed by these wars, forcing a great number of peasants to leave their homes and look for jobs in coastal cities. These peasants, as well as other marginal and destitute

populations who were not able to receive support from their families, chose to join secret societies for mutual protection and the acquisition of life's necessities (Bianco and Chesneaux 1972).

The late Qing dynasty also witnessed the emergence of capitalist industry and commerce. The growth of a commercial economy in coastal areas, especially the Yangtze River Delta region and the south-east coastal area, attracted hundreds of thousands of immigrants from relatively undeveloped areas. These cities, however, failed to accommodate the surplus population from rural areas because the capitalist industry was only in its infancy (Zhang 2001a). In order to survive in highly uncertain circumstances, these marginal and displaced persons grouped together to form mutual aid organizations.

The failure of the Qing government to provide social welfare to those who lost their homes due to the collapse of the agrarian economy facilitated the formation of mutual aid organizations, called *Banghui*. These organizations functioned as quasi-governmental institutions offering protection to these displaced people (Cai 1987; Chen 2005; Qin 2009). The following offers a brief description of the origins of three major *Banghui* (the Heaven and Earth Society, the Green Gang, and the Red Gang) and the formation of the Green-Red Gang.

### *The Heaven and Earth Society*

The Heaven and Earth Society (*Tiandihui*) has been defined as a secret brotherhood association initially in pursuit of political aims—‘overthrow the Qing (dynasty) and restore the Ming (dynasty)’ (*fanqingfuming*)—and later developed into a purely criminal organization with predominantly economic objectives (He 1996). Since the 1980s, Chinese historians have provided many explanations concerning the origin of the Heaven and Earth Society. The most widely accepted explanation is that it was established in Zhangzhou (the southern part of Fujian province) in 1674 by a Buddhist monk named Zhang Daozong (his religious name was *Wanwu Dazong*) (He 1996). The Heaven and Earth Society was frequently renamed to avoid government repression. For example, *Sanhehui* (triads) and *Sandianhui* were two generally accepted names, as was the Small Sword Society (*Xiaodaohui*) a name used only in Fujian province and Taiwan (He 2009a).

The Heaven and Earth Society gradually lost its initial political beliefs and, after recruiting a great number of homeless persons,

developed into one of the most powerful criminal organizations. As Chu (2000: 12) argues, 'Tiandihui [the Heaven and Earth Society] as it subsequently developed has nothing to do with the political mission ... but was a mutual protection society which emerged spontaneously to respond to the social conflicts among various sub-ethnic groups linked to their socio-economic circumstances'. In order to gain financial benefits, members of the Heaven and Earth Society were involved in many different criminal activities including drug trafficking, human smuggling, dispute resolution, blackmail, and extortion (He 2009a).

### *The Green Gang*

The Green Gang (*Qingbang*) evolved from the religious Patriarch Luo sect. Wang (1999) argues that the Green Gang as a secret society shares the characteristics of both the secular secret association and the secret religious denomination. That is to say, the Green Gang is not only performing like a secret mutual-aid and brotherhood organization, but also retains its religious beliefs. But He Bingsong suggests that the Green Gang should be categorized as a secular secret association because its main features resemble a secret brotherhood association (He 2009a; Martin 1995).

The Patriarch Luo sect was founded in the early sixteenth century by Luo Mengqing in the city of Jimo, Shandong province (Qin 2009). The Patriarch Luo sect earned its reputation among the Beijing–Hangzhou Grand Canal boatmen through the establishment of many temples (*jiamiao*) in the Subei region of Jiangshu province. These temples were initially used as missionary training centres and were gradually turned into asylums and mutual-aid institutions providing accommodation for boatmen in need (Cai 2009).

In 1768, the Qianlong emperor outlawed the Luo sect and demolished its temples because of his concern about instability caused by the growth of the sect (He 2009a). This led the Luo sect to set up 'floating temples' (also called 'incense boats'). As Martin (1996) has observed, the floating temples 'replaced the temple-hostels as the organizational and religious nuclei of the boatmen's association' (p. 11). The proscription of the Luo sect, as Ma and Han (1992) argue, was a key turning point for the sect's transformation from a religious denomination to an essentially secret society (*Banghui*).

It was transformed again with the establishment of Anqing Daoyou (which means ‘friends of the way of tranquillity and purity’) during the late nineteenth and early twentieth centuries (Martin 1996). Anqing Daoyou was later renamed the Green Gang. The primary income for the Green Gang was from various illegal activities, for example illegal trafficking of salt and collection of unpaid debts (Tan and Peng 2002).

### *The Red Gang*

Chinese historians offer four different versions of the origin of the Red Gang: (1) the Red Gang has the same origin as the Heaven and Earth Society; both of them were established by Zheng Chenggong during the reign of Emperor Kangxi of the Qing dynasty (1661–1722), and both were created to achieve the political mission of ‘overthrow the Qing dynasty and restore the Ming dynasty’; (2) the Red Gang was founded during the reign of Emperor Qianlong of the Qing dynasty (1735–1795) with the purpose of ‘overthrowing the Qing and restoring the Ming’; (3) the Red Gang originates from *Guoluhui*, a secret brotherhood organization based in Sichuan province; and (4) the Red Gang was a combination of the Heaven and Earth Society and the White Lotus cult in the late Qing dynasty (He 2009a).

After a thirty-year study of the history of the Qing dynasty, Cai (2009) offered a new explanation of the origin: in the reigns of Emperor Jiaqing and Daoguang (1795–1850), the Red Gang was formed through the integration of *Guoluhui* with the Sichuan branches of the Heaven and Earth Society and the White Lotus cult (see also Qin and Meng 2000). This explanation has been generally accepted by academics.

Freight and passenger traffic on the middle and lower reaches of the Yangtze River (from Chongqing to Shanghai via Yichang in Hubei province) mainly depended on wooden ships, which required a large number of sailors. These labourers formed self-help groups in order to guarantee their basic livelihood. What made the situation worse was that different parts of the river needed different amounts of labour, resulting in a large number of surplus sailors in the Chongqing area without ensuring a minimum standard of living (Qin and Meng 2000).

In the late Qing dynasty, people living in Chongqing suffered from harsh natural conditions and adverse living circumstances. Under these circumstances, increasing numbers of unemployed

sailors either joined *Guoluhui* or became beggars. A new hybrid organization called ‘the Red Gang’ was formed by the amalgamation of *Guoluhui* and *Qinglianjiao* (a subgroup of the Heaven and Earth Society) in 1821 (Zhou and Shao 1993). The Red Gang then became a powerful organization composed of sworn brothers based on fictive kinship. In the 1850s and early 1860s, a large number of Red Gang members joined the Xiang army<sup>2</sup> and became the main force in the repression of the peasant uprising in the Taiping Heavenly Kingdom (Chin 2001).

### *The formation of the Green–Red Gang in the late Qing dynasty*

In 1821, Emperor Daoguang of the Qing dynasty began to reform the water transport system. Grain transportation from southeast regions to the capital (the Forbidden City) gradually shifted from river transport to maritime transport, which brought significant challenges to the survival of secret societies (He 2009a).

The end of river transport in 1853 caused millions of sailors—most of them were members of the Green Gang and the Red Gang—to lose their jobs. These secret societies were thus on the verge of collapse. However, a new Green Gang was established, comprising of unemployed boatmen and salt smugglers who belonged to *Qingpidang*, a well-structured criminal organization that emerged during the reigns of Emperors Jiaqing and Daoguang of the Qing dynasty (1799–1850) (Zheng 2000). The smuggling of salt in Huainan and Huaibei regions became the main financial underpinning of the new Green Gang (He 2009a).

When the Taiping troops were defeated in 1864, the Xiang Army was disbanded, resulting in large-scale layoffs. Millions of unemployed people returned to or joined the Red Gang. They became new competitors of the Green Gang as they also derived their main income from salt smuggling, leading to a series of violent conflicts. An agreement between the two parties was finally reached: the Red Gang took charge of opium trafficking along the Yangtze River, while the Green Gang monopolized the smuggling of salt (He 2009a; Martin 1996).

<sup>2</sup> The Xiang Army, a standing regional army legalized by the Qing government and headed by Zeng Guofan, was a major force in the suppression of the Taiping movement in Southern China from 1850 to 1864.



During the late nineteenth and early twentieth centuries, a huge number of gang members from both the Green Gang and the Red Gang migrated to the trading ports of Shanghai, Zhenjiang, and Nanjing (He 2009a). In the early 1920s, Red Gang and Green Gang members based in the three trading ports merged into a big family—the Green and Red Gang<sup>3</sup>—by relaxing their organizational structures to become more receptive to each other (Xia 2008). Members of these two secret societies continued to work independently in other areas.

In the late Qing dynasty, more and more displaced people joined the feudal *Banghui* in order to earn a living. These secret societies (e.g. the Heaven and Earth Society, the Green Gang, and the Red Gang) acted as quasi-governmental institutions, providing protection for helpless people. Although gang members were involved in the repression of rebellions or fights against local governments, they did so in order to earn better living conditions rather than to achieve political or ideological ambitions (Cai 1987; Qin 2009).

Criminal activities in which the Green–Red Gang mainly engaged can be divided into four aspects: salt smuggling, opium trafficking, women trafficking, and gambling. Salt smuggling brought huge profits to the Green–Red Gang. Despite government control of the production, distribution, and sale of salt, a huge price differential between various regions resulted in a massive increase in smuggling. The Red Gang in the upper areas of the Yangtze River engaged in smuggling Sichuan well-salt—the best salt in China. The Green–Red Gang in the lower reaches of the Yangtze River controlled the smuggling of salt produced by saltworks in the Lianghuai area (Huainan and Huaibei regions) and Zhejiang province (Wu 2008).

Opium trafficking was another economic backbone of the Green–Red Gang. In the 1880s and 1890s, the demand for opium increased dramatically in the southeast coastal region. Benefiting from their abilities to use organized violence, the feudal *Banghui* (e.g. the Green–Red Gang) and warlords managed to regulate the opium trade (He 2009a). Entrepreneurs involved in the opium trade were compelled to purchase protection or licences from

<sup>3</sup> The amalgamation of the Green Gang and the Red Gang happened mainly in the lower areas of the Yangtze River, including Zhejiang Province, Jiangsu Province, and the City of Shanghai. In other provinces, the two organizations retained their original names because the level of amalgamation was limited.

the *Banghui* or warlords in order to avoid damage—damage the *Banghui* or warlords threatened to deliver.

Prostitution and the trafficking of women were also monopolized by the feudal *Banghui*. At the end of the nineteenth century, Shanghai witnessed a booming entertainment industry. A large number of brothels were established or protected by Green and Red Gang members. Gang members also set up trans-regional criminal networks to traffic females from inland China to Shanghai, most of whom were forced to become sex workers (Cai 2009). Furthermore, the feudal *Banghui* earned huge profits from gambling businesses. In cities like Shanghai, Nanjing, and Zhenjiang, most gambling houses were owned by Green and Red Gang bosses. Non-gang members were not allowed to manage such businesses until they obtained approval from the Green–Red Gang (Tan and Peng 2002).

### **The Rise of the Shanghai Green Gang in the Republic of China (1912–1949)**

The Revolution of 1911 overthrew the Qing dynasty. But the end of the 270-year-old rule of the Qing government and the establishment of the Republic of China did not bring social stability. A number of wars happened after the end of the feudal system: constant fighting among warlords (1916–1928), the Anti-Japanese War (1937–1945), and the civil war between the Kuomintang and the Communist Party of China (1945–1949) (Liu 1981). Long-lasting wars made it extremely difficult for the government to meet people's basic needs, creating favourable conditions for the emergence of private organizations providing protection and basic living necessities.

In the inter-war period, the feudal *Banghui* achieved rapid development. The scale of their illegal businesses was gradually expanding, the cooperation between criminal organizations and warlords was unexpectedly close, and the criminal–political nexus between gang bosses and political leaders was widely established. Rather than attempting to deliver a general description of all major criminal organizations, the following sections aim to offer an in-depth case study focusing on the Shanghai Green Gang in order to present a clear understanding of the ways in which criminal organizations responded to socio-economic and political change in the first half of the twentieth century.

*Shanghai: the crime capital of China*

By the end of the nineteenth century Shanghai had emerged as the country's most crime-ridden city. Martin (1996) outlines two general factors making Shanghai favourable for the growth of 'gangster organizations'. On the one hand, in the late nineteenth century, the emergence of Shanghai as the leading commercial and industrial centre in China led to the mass migration of peasants and merchants to Shanghai from all over the country. On the other hand, the existence of divided and conflicting police jurisdictions meant the city's police authorities were unable to deal with the increase in criminal activities brought by the mass migration.

Shanghai was China's major semi-colonial treaty port in the early twentieth century (Wakeman 1996). As Martin (1996: 31) points out, 'Shanghai was not one city but three—the Chinese city, the International Settlement and the French Concession—each with its own administrative, legal and police systems.' The lack of efficient cooperation among the three separate police authorities provided a breeding ground for organized crime. Under such circumstances, gangsters developed a unique strategy: they based themselves in one jurisdiction and committed crimes (e.g. kidnapping, robbery, and homicide) in the other two jurisdictions (Su and Chen 2004). Shanghai witnessed a crime epidemic in the early 1920s. Take armed robbery for example; as Wakeman (1996: 6) states, 'in 1922 there were 47 armed robberies reported in the International Settlement. Two years later the number had increased more than fourfold to 204 armed robberies, and by 1926 there were 448 instances of this felony—an increase of more than 950 percent within five years.'

*Gang leaders as police officers*

Population explosion, coupled with an increasing threat of crime as well as the emergence of a huge floating population, brought great headaches to the colonial authorities. The lack of understanding of Chinese language and culture made colonial authorities unable to maintain stability in their jurisdictions (Guo 1996; Shao 1997; Su 2010; Zhou and Shao 1993). In response to this epidemic, the two foreign jurisdictions adopted a policy of 'using a thief to catch a thief', where 'police officers recruited the most powerful and successful gangsters into their detective squads' (Martin 1996: 33).

Huang Jinrong, an influential Green Gang boss, was selected by the French Concession Police to become a detective. Pulling himself up from the bottom of society, Huang established wide social networks, especially within the Shanghai Green Gang, and had an in-depth understanding of all social strata. Fictive kinship ties within the Shanghai Green Gang enabled effective information-sharing about criminal activities, allowing Huang to take swift action to arrest offenders. As a result, crime rates in the French Concession declined significantly. In return, Huang was promoted all the way to chief superintendent (*duchazhang*) in 1924 (Su and Chen 2004).

The employment of gangster-detectives in providing 'street safety' gave rise to two outcomes: first, the authorities tended to turn a blind eye to the gangster-detectives' illicit rackets; second, the new role of these gangster-detectives enabled them to eliminate actual or potential rivals and facilitated their monopolization of illegal markets in Shanghai (Martin 1996). Huang Jinrong established his outstanding reputation in the Shanghai criminal underworld by abusing his power: Green Gang members involved in criminal activities received less severe or no punishment (Su 2010). The increasing significance of this gangster organization in day-to-day social control in the colonial administrations was accompanied by the rise of booming illegal markets, especially in the opium trade and gambling. With the help of Huang Jinrong, Du Yuesheng,<sup>4</sup> and Zhang Xiaolin<sup>5</sup> also emerged as influential Green Gang bosses in the Shanghai criminal underworld. Huang, Du, and Zhang were widely regarded as 'three Shanghai tycoons' who were able to regulate Shanghai's illegal markets. They also managed to exert their influence over legal markets such as banking, shipping, and food supply (He 2009a).

In order to understand why the Shanghai Green Gang not only became a kingpin in the criminal underworld but also expanded

<sup>4</sup> In the early 1900s, Du Yuesheng joined the Shanghai Green Gang and became the 'pupil' of a senior gang leader, Chen Shichang. In 1907, Chen introduced Du to Huang Jinrong and Du became a key member of the Huang Jinrong group (Zhang 1981). Du made important contributions to the Huang Jinrong group, for example introducing Huang to Zhang Xiaolin, one of the three Shanghai tycoons; the establishment of The Small Eight Mob (*Xiao Bagudang*); and the creation of Sanxin Company which engaged in the opium trade in the French colonial concession.

<sup>5</sup> Zhang Xiaolin, a senior Green Gang member, possessed extensive networks with warlords and political leaders in east China.

its sphere of influence to legal markets, the following examines the Shanghai Green Gang through two major perspectives: *internal control* and *external governance*. The former discusses the use of criminal constitutions (internal rules and regulations) to regulate gang members' behaviour and deal with external uncertainties. The latter can be divided into three sections: firstly, it focuses on the role of the Shanghai Green Gang in illegal markets (e.g. the opium trade and gambling); secondly, it explores how gang bosses established mutually beneficial networks with political and economic elites; thirdly, it studies the gang's infiltration of legal markets.

### Green Gang's Internal Control

A criminal constitution refers to a set of written rules or regulations that governed a gang (Leeson and Skarbek 2010). Because the Green Gang was a nationwide organization consisting of numerous loosely connected gangs, it was crucial to achieve consensus on organizational goals and member obligations in order to maximize profits. The Green Gang developed its own social rules for self-governance, because obviously gang members could not rely on government to enforce agreements they made with each other or prevent members from cheating, stealing from, or murdering each other. Criminal constitutions designed by the Green Gang were accepted by all branches, including the Shanghai Green Gang. Before offering a comprehensive analysis of the Green Gang constitution, this part will show how the gang's organizational structure facilitated the enforcement of these gang rules.

The Green Gang was organized through master-disciple (teacher-pupil) relationships. 'Twenty-four Chinese characters were assigned to the ladder of different generations, and another 24 characters were added as the Green Gang expanded' (Xia 2008: 8). In other words, the generation name (character or *zi*) was given to every new member and the positions of all members were dependent on rank achieved through generational position in the hierarchical 'family' tree. It is worth noting that while 'membership in a senior generational group conferred influence and status within the Green Gang system, it did not necessarily confer power' (Martin 1996: 20). For example, Du Yuesheng, one of 'three Shanghai tycoons', who belonged to a rather lowly generational status group, was able to exercise authority over other gang members and leaders belonging to senior generational groups (Xu 1982).

Each Green Gang member had at least three teachers (all of whom should be senior gang members): a 'recommender' (*yingjian shi*), a 'master of studies' or 'master of original life' (*benmen shi*), and a 'master of preaching' (*chuandao shi*) (Chesneaux 1971). The duty of the recommender was to introduce the applicant to the master of studies, the most important teacher, who took principal responsibility for educating and training the junior member once s/he was admitted. 'A master of preaching' was also needed to supervise gang rituals and teach the applicant the gang's essential principles (Bianco and Chesneaux 1972). According to Green Gang manuals, these three masters could not belong to the same gang branch (Chesneaux 1971). This strategy enabled gang members to create solidarity among different branches.

During the process of initiation, applicants studied the history of the society and were required to understand and memorize the Three Gangs and Nine Generations<sup>6</sup> (*sanbang liudai*), The Bottom of the Ocean (*haidi*, refers to Green Gang's secret language), and a set of rules including Ten Great Rules and Ten Prohibitions (see Appendix I).

The Green Gang constitution was designed to deal with issues arising from both inside and outside the organization. Internal issues were caused by conflicts among brothers or between teachers and disciples. Such conflicts would lead to infighting, which threatened the organization's solidarity. Furthermore, the major external uncertainty the gang had to face was the threat posed by law enforcement agencies.

### *Coping with conflicts within the organization*

The Green Gang constitution provided an effective mechanism for creating a harmonious relationship between teachers (gang leaders) and disciples (rank-and-file members). It offered a set of basic moral principles specifically for disciples. For example, Article 1 of the Ten Great Rules stated that disciples must respect and obey teachers (see Appendix I). Article 6 showed that even if disciples won promotion (in local or national government) or became rich, they

<sup>6</sup> 'Three Gangs' (*sanbang*) refers to the names of the branches which these three masters (the recommender, the master of studies, and the master of preaching) belonged to. 'Nine Generations' (*jiudai*) means the names of the three masters and these masters' 'master-fathers' and 'master-grandfathers'.

must not despise their teachers or ‘families’ (Zhao 2012a). ‘*Zunshi zhongdao*’ means respecting the teacher and paying attention to principles, which has long been a key moral principle and ethical norm accepted not only by Chinese society but also by criminal organizations. This rule grants teachers (gang leaders) the absolute power to determine disciples’ way of life, rights, and obligations.

In order to avoid conflicts, disciples in the Green Gang were prohibited from becoming disciples to two teachers simultaneously, and were prohibited from recruiting new disciples on behalf of teachers (Tan and Peng 2002). Moreover, the power of a teacher to recruit new disciples was limited so as to avoid disputes with current disciples. Article 4 of The Green Gang’s Ten Prohibitions states that a teacher who ‘closed his door’ (*guan shanmen*, refers to a public announcement of no longer recruiting new members) was prohibited from opening his door again and recruiting new disciples (see Appendix I). Green Gang leaders chose to close their doors only when they were very old. This rule enabled their disciples to expand their influence by recruiting new members. If a gang boss who ‘closed his door’ opened his door again, this would cause conflict with his current disciples, especially those who had already become influential gang leaders. This is because the new members would belong to the same generational group as them, diminishing their status in the criminal underworld.

The Green Gang’s hierarchical structure permitted the organization to reduce decision-making costs for many issues. However, this hierarchical structure created the danger that teachers (gang leaders) given this authority might be tempted to abuse their positions and prey on their disciples (see also Leeson and Skarbek 2010; Skarbek 2012). Analysis of the Green Gang constitution suggests that the rules regulating teachers’ authority were not sufficient, indicating that the gang rules lacked democratic checks<sup>7</sup> and balances.

The Green Gang constitution also included a number of rules regulating disputes among brothers in the same generational group. Behaviours such as debauching a brother’s wife, daughter, or sister would result in severe punishment, including death. Behaviours that sought personal benefit at the cost of others (e.g. brothers and teachers) were strictly prohibited. These regulations were sufficient to prevent the strong from plundering the weak and prevent the

<sup>7</sup> Green Gang members did not possess the power to elect their leaders.

dishonest from defrauding the honest, strengthening solidarity among members (see also Skarbek and Wang 2015).

### *Mitigating external uncertainties*

A criminal organization tends to create explicit rules regulating the manner of inter-criminal communication in order to avoid arrest and incarceration (Gambetta 2009; Leeson and Skarbek 2010; Skarbek 2011). The Green Gang developed a secret language to create a clear boundary between insiders and outsiders and to protect the organization from government suppression (Su and Chen 2004). Three forms of argot are identified by linguists: '(1) using the roots of the standard language and transforming them through various phonetic and morphological procedures; (2) keeping the roots of the standard language without transforming them but giving them special meaning; and (3) borrowing [from other sources]' (Di 2008: 88).

Secret languages were of particular importance in teahouses. The Green Gang established a large number of teahouses in order to facilitate communication among different branches and to provide necessities (e.g. food, temporary accommodation, and medical care) to gang members in need. Any member who arrived in a new territory usually chose to visit local teahouses. The Green Gang member would order a pot of 'green tea'—a phrase used by insiders to refer to the Green Gang. If the tea house was owned by a Green Gang leader, the waitress would invite his gang boss to talk with this visitor. Various ways of testing visitors were adopted by local gang leaders, including arranging and handling tea-cups, using rhymed stanzas and specialized language to ask and answer questions and disclosing information about Three Gangs and Nine Generations (Di 2008; Zhao 2012a). If the visitor was identified as an insider, the local gang leader would find a place for him to stay or provide financial assistance or protection as necessary (Su and Chen 2004). The secret language of the Green Gang was a useful tool that not only made the society invisible to outsiders but also bound members from different branches together.

### *Sanctions*

Their criminal constitution enabled the Green Gang to collect reliable facts about members' misconduct and coordinate the enforcement of its rules. The constitution explicitly defined acceptable



behaviour and stipulated penalties for violating rules. These explicit rules provided an efficient mechanism for detecting rule violators and coordinating members' response to these violations (Leeson and Skarbek 2010). The gang collected reliable information by relying on an extensive network of gang members.

Native-place (*tongxiang*) networks<sup>8</sup> were extremely important for the Green Gang in recruiting new members. As Martin (1996: 29) argues, 'the native-place system itself became the basic building block of gangster organizations'. On joining the Green Gang, a new disciple's name would be passed to all branch members. The information was also transmitted through native-place networks. Interpersonal networks not only helped gang leaders to identify rule violators but also shielded secret information from the general public. If 'illegitimate' behaviour occurred, information regarding that misconduct would spread within the network. In this case, consideration of reputation and fear of sanction would decrease the temptation to break the organization's rules.

Due to the lack of access to the state-sponsored court system, the Green Gang had to develop a system of sanctions against member misconduct.<sup>9</sup> The sanctions set up by the Green Gang were used not only to prevent exposure through carelessness and treachery, but also to control internal conflict (Davis 1977). Two types of 'courts' were regularly held in order to settle disputes among different branches and sanction those who violated the rules (Cai 1987). The first type was the 'arbitration court' (*pingshi xiangtang*), a temporary institution consisting of *Sanlao Sishao*—three progenitors<sup>10</sup> and four influential branch leaders—with the authority to settle disputes within the organization. The second type was the 'criminal justice court' (*xingshi xiangtang*), designed to identify the facts concerning rule violations and sanction misbehaviours (Qin 2011).

The Green Gang constitution set out different types of offences and what it considered appropriate punishments, including

<sup>8</sup> A native-place network is a network made up of people from the same birthplace.

<sup>9</sup> The misconducts subject to sanctions include betraying the organization, forming sexual relations with spouses of members, and exploiting fellow members.

<sup>10</sup> The criminal justice court was required to set up altars containing the tablets representing 'the three progenitors' (Wen Yan, Qian Jian, and Pan Qing), indicating that these ancestors were invited to settle internal conflicts. This strategy invested in branch leaders the authority to judge various types of dispute.

corporal punishment (beating with wooden staves), exile or expulsion, *sandao liuyan* (stabbing the lower leg in three places, resulting in six wounds), *jiudao shiba ba* (stabbing the thigh in nine places, resulting in eighteen wounds), and death by drowning or burying (Su and Chen 2004). The severity of these penalties was extremely useful for strengthening the internal unity and ideological harmony of the Green Gang (Davis 1977).

The establishment of explicit rules and regulations enabled the Green Gang to set up effective internal controls: preventing and solving disputes among gang members, facilitating efficient cooperation among different branches, and protecting the gang from government repression. The following narrows its focus to the Shanghai Green Gang by exploring the ways in which the gang governed the criminal underworld.

## The Shanghai Green Gang in Illegal Markets

Using organized violence and extensive networks with warlords and colonial authorities, three Shanghai tycoons monopolized traditional illegal businesses such as the opium trade and gambling (Qin 2009; Su and Yao 2005).

### *Opium trade*

Gang members in Shanghai were frequently involved in the robbery of opium in order to make their living. Two notorious groups that established their reputation in this field were the Big Eight Mob (*Da Bagudang*) and the Small Eight Mob (*Xiao Bagudang*) (Qin 2009). The Big Eight Mob, consisting of eight gang members, was established by Shen Xingshan, an influential gang leader in the International Settlement (Zhou and Shao 1993; Zhuang 1994). All opium dealers in the International Settlement were required to pay a 'protection fee' to the Sheng Xingshan gang in order to avoid being robbed by the Big Eight Mob and other street robbers.

The Big Eight Mob succeeded in transforming themselves from robbers to protectors when most opium dealers agreed to pay 'tax' to avoid robbery. Through this strategy, the opium trade in the International Settlement was all but monopolized by Shen Xingshan (Qin 2009). However, huge profits prompted the rise of competitors. Under the instructions of Huang Jinrong, Du Yuesheng established the Small Eight Mob. The establishment of the Small Eight

Mob was a starting point for Huang and Du to take over the Big Eight Mob's protection business and to regulate the opium trade in Shanghai (Martin 1996).

During the late 1910s and early 1920s, the Shanghai International Settlement launched an anti-narcotics campaign to eradicate the opium trade. This threatened the protection business of the Big Eight Mob, because over 1,400 opium traders were forced to move elsewhere (Guo 1991). This provided three Shanghai tycoons (Huang Jinrong, Du Yuesheng, and Zhang Xiaolin) with an excellent opportunity to strengthen their control of the opium trade in Shanghai (Martin 1996). In order to protect his interests in the reconstructed opium market, Shen Xingshan signed an agreement with Huang Jinrong in which Shen agreed to move all opium dens from the International Settlement to the French Concession.

Huang Jinrong and his two colleagues, Du Yuesheng and Zhang Xiaolin, established the Sanxin Company<sup>11</sup> (*Sanxin Gongsi*) in 1918. In order to monopolize the opium trade in Shanghai, the Sanxin Company employed a profit-sharing strategy to establish 'the collusion with the Chinese authorities in Shanghai, the tacit cooperation with the French authorities, and the efficient network with the warlords in east China' (Martin 1996: 63). The Sanxin Company was popularly referred to as the 'Big Company'<sup>12</sup> (*Da Gongsi*) because a large number of shareholders, including the Shanghai Green Gang, Chiu Chow opium traders, the colonial authorities, and warlords in east China, were all entitled to share the profits (Su and Yao 2005).

The Sanxin Company functioned like an insurance company providing protection for opium traders; in return, traders had to pay a protection fee (10 per cent of the total value of the opium) to the Sanxin Company (Zhang 1981). Only opium with the stamp of the Sanxin Company could be sold in the French Concession. Although the stamp tax was an extra financial burden, opium traders were willing to pay because the Sanxin Company offered them genuine protection (such as from robbery and decreasing market competition). Moreover, the Sanxin Company was a 'super opium

<sup>11</sup> The Sanxin Company can be translated as the Three Prosperities Company.

<sup>12</sup> Although the Big Company distributed its illegal benefits to a wide range of people, it was wholly controlled by the three tycoons: Du Yuesheng was appointed by Huang Jinrong as managing director of the 'Big Company' and Zhang Xiaolin was appointed as deputy manager.

market' because it directly engaged in the opium trade and was able to manipulate the price of opium (Su and Yao 2005).

Benefiting from the collusion with colonial authorities and warlords, opium from the Sanxin Company was distributed not only in the French Concession but also in the International Settlement and all provinces and municipalities in China (Su 2010). The opium trade brought a total income of Ch\$ 56 million per year to the Sanxin Company, equating to 14–20 per cent of total state revenue (Su and Yao 2005). The profit from the opium trade enabled the three Shanghai tycoons to expand their interests to other areas including gambling.

### *Gambling*

In the late 1920s and early 1930s, the scale of commercialized gambling in Shanghai was larger than in any other city in the world. As Wakeman (1995: 24) argues, 'the turnover from professionally conducted gambling, including roulette and horse and dog racing, exceeded \$1 million a week; and some claimed that Shanghai deserved to usurp Monte Carlo's title as the gambling center of the world'. An estimate made by the Shanghai Municipal Police in 1935 revealed that 'slot machines alone in the International Settlement took in approximately one million U.S. dollars per annum' (Wakeman 2009: 223). In order to cash in on this interest in gambling, foreign businesspeople set up a series of 'recreation' clubs, for example the Shanghai Race Club. Wakeman (1995: 99) notes that 'taking 20 to 25 percent of the money bet on the big "sweeps", the club's percentage from the four-day autumn meeting alone, yielded \$250,000'. Not surprisingly, it soon became one of the wealthiest foreign corporations in China.

Green Gang bosses also became important suppliers of gambling services. In the early 1920s, Shanghai's three tycoons noticed the rising importance of gambling in the city's entertainment industries and decided to enter the gambling market in order to maximize their illicit profit (Qin 2009). Five large-scale gambling houses were established between 1920 and 1932,<sup>13</sup> the most famous of which was the Rongsheng at 181 Avenue Foch (He 2009a). Customers in these gambling houses were offered complimentary opium,

<sup>13</sup> In 1932, the Shanghai War between the armies of the Republic of China and the Empire of Japan forced gambling businesses to close.

cigarettes, Chinese-style and western-style food, wine, and soft drinks. The Rongsheng also offered its best customers free door-to-door transport (Wakeman 1996). Most importantly, gang bosses' gambling houses not only offered traditional Chinese forms of gambling (e.g. mah-jong, pai gow, and card games), but also introduced western forms of gambling (e.g. roulette) in order to attract customers (Qin 2009).

The control of the gambling industry by the Shanghai Green Gang in the late 1920s and early 1930s offers an excellent illustration of how illegal gambling enterprises obtained huge profits by coping with four major challenges: finance, marketing, dispute settlement, and police intervention. Firstly, the net profits from the opium trade enabled the three tycoons to expand their sphere of influence to other areas. Their gambling business was mainly funded by profits from their opium business (Zhao 2012a).

Secondly, Green Gang members were important gambling customers. For the three Shanghai tycoons, the most powerful gang bosses in Shanghai, marketing to internal customers (Green Gang members) was easy. The total number of gangsters in Shanghai in the 1920s and 1930s was estimated at about 100,000, representing over 3 per cent of the city's population (Martin 1996). In order to attract external customers, the Shanghai tycoons adopted two strategies: the supply of high-quality services and the provision of a safe environment. The tycoons' gambling houses were luxuriously decorated and the management of the Three Prosperities Company enabled them to provide complimentary high-quality opium, both of which attracted a large number of customers (Zhao 2012a). Compared with other gambling establishment owners, the Shanghai tycoons were able to provide a safer environment for gamblers because of Huang Jinrong's close connections with the colonial authorities.

Thirdly, in order to run their gambling houses smoothly, the Shanghai tycoons managed to handle disputes with two important entities in the criminal underworld: street robbery groups and the Red Gang. To deal with these threats, the Shanghai tycoons applied two completely different strategies—cooperation and violence—to protect their businesses. Street robbery groups, consisting mainly of homeless individuals, earned their living through armed robbery. Robbing gambling customers, however, threatened the gambling business in the French Concession. A negotiation then occurred between Green Gang bosses and robbery group leaders. A mutually beneficial relationship was therefore created: the Shanghai tycoons

gave these robbery groups 10 per cent of gambling profit; in return, the street robbery groups transformed themselves from robbers to protectors safeguarding gamblers from street crime (Qin 2009).

But such cooperation only occurred in situations where mutual benefit could be achieved. The Shanghai tycoons adopted a wholly different strategy when dealing with the problems caused by the Red Gang, another influential Shanghai criminal organization. The Shanghai tycoons were required by a Red Gang boss to pay a protection fee (Ch\$ 5,000 per month). This request was rejected as it challenged the tycoons' authority in the French Concession. After this rejection, the Red Gang started reprisals. A number of Red Gang members were assigned to use grenades to disrupt the normal running of gambling houses, resulting in death and injury. As a response, the Shanghai tycoons stepped up security and these trouble-makers were tortured and killed (Zhao 2012a).

Fourthly, the involvement of the three Shanghai tycoons in the gambling industry benefited from their close connections with the city's police forces, especially those in the French Concession. Their gambling houses provided all ranks of police officers and detectives with special allowances, ranging from Ch\$ 40 to Ch\$ 500 each month (Zhao 2012a). In the late 1920s, the International Settlement and French Concession police forces were compelled by the new Chinese municipal government to crack down on gambling in their jurisdictions (Wakeman 1996). The tycoons responded by developing two effective counter-measures: (1) gambling houses were normally located near jurisdictional borders, which allowed the gangsters to move between jurisdictions during periodic police crackdowns (Martin 1996; Zhao 2012a); (2) the French Concession police agreed to conduct police raids during the daytime, when very few customers were present, and the only ones they arrested were actually three Shanghai tycoons' gangsters in disguise; they were released shortly thereafter. This mutually beneficial partnership not only protected gang bosses' gambling businesses but also made the public believe that the colonial authorities were carrying out a thoroughgoing crusade against gambling (Qin 2009).

## **Links with Political and Business Elites**

Green Gang bosses were not satisfied with their success in Shanghai's illicit markets; they managed to expand their sphere of influence to Shanghai's political and economic systems. Gang

bosses established close ties with top politicians (e.g. Chiang Kai-shek) through helping the government strengthen its control over Shanghai's labour unions and financial institutions. Gang bosses also created their own legal fronts (titled 'new societies') that facilitated them to establish wide connections with politicians, government officials, military officers, and businesspeople.

### *The Shanghai Green Gang and the Kuomintang*

The development of the Shanghai Green Gang was inseparable from the support given by Chiang Kai-shek, the military and political leader who served as Chairman of the National Military Council of the Nationalist government of the Republic of China (ROC) from 1928 to 1948. Meanwhile, Chiang was the most influential member of the Kuomintang, the Chinese Nationalist Party. Chiang joined the Shanghai Green Gang at the invitation of Yu Qiaqing, an influential businessman, and became a 'pupil' of Huang Jinrong in 1922. Huang Jinrong rescued Chiang from a debt crisis and provided financial support for Chiang to join the movement fighting against the northern warlords (Su 2010).

The relationship between Huang Jinrong and Chiang Kai-shek was a private teacher-student friendship, and the collusion between the Chiang Kai-shek government and the Shanghai Green Gang did not begin until 12 April 1927 (Su and Chen 2004). The Shanghai Green Gang functioned as the key enforcer in both Chiang Kai-shek's seizure of state power in the April 12 Incident of 1927 and Chiang Kai-shek's move to gain financial control of the Commercial Bank of China (*Zhongguo Tongshang Yinhang*).

The April 12 Incident, also known as the Shanghai massacre, involved the violent suppression of Chinese Communist Party organizations in Shanghai by both Chiang Kai-shek and the Shanghai Green Gang, during which many prominent communists were imprisoned or massacred (Coble Jr 1979). This incident enabled Chiang Kai-shek to destroy the communist-dominated labour unions in Shanghai and restructure his power base.

With the help of Shanghai Green Gang boss Du Yuesheng, the Chiang Kai-shek government successfully gained control of the Commercial Bank of China in 1935. The Commercial Bank of China was the first modern Chinese-owned bank, established on 27 May 1897 by Sheng Xuanhuai. From 1919 to 1935, Fu Xiao'an, the subordinate of Sun Chuanfang who was the head of the Zhi

Clique of warlords,<sup>14</sup> was the bank's president (Hu 1999). The close relationship between Fu and Sun led to Fu's estrangement from the Kuomintang, however, because the Kuomintang was a military competitor of the Zhi Clique warlord.

The Commercial Bank of China suffered a serious crisis after the Kuomintang took control of Shanghai. In 1935, a run on the bank engineered by Chiang Kai-shek and Du Yuesheng pushed the Commercial Bank of China to the verge of collapse, creating a good opportunity for the Kuomintang to gain control of it (He 2009a). Chiang Kai-shek ordered the Bank of China and the Communication Bank to clandestinely buy a large number of bonds issued by the Commercial Bank of China. Meanwhile, Du Yuesheng instructed a large number of Green Gang members to deposit significant amounts of money into the Commercial Bank and then all withdraw their deposits at the same time (Hu 1999). A bank run led to an unprecedented economic collapse, forcing Fu Xiao'an to ask the Kuomintang government for help. A capital injection from the Bank of China and the Communication Bank transformed the Commercial Bank of China from a private bank into a state-owned bank. In return, the Kuomintang government appointed Du Yuesheng as the new president of the Commercial Bank of China.

### *Legal fronts*

In order to get a legal basis for their activities, Shanghai Green Gang bosses established new societies. These new societies adopt a non-hierarchical internal structure in order to consolidate and extend Green Gang bosses' diverse commercial and financial interests. Since the 1930s, a number of new societies had been established. The three most influential were: Du Yuesheng's Endurance Society (*Heng She*), Huang Jinrong's Loyalty Society (*Zhongxin She*), and Zhang Renkui's<sup>15</sup> Benevolent Society (*Ren She*) (Martin 1996).

Taking the Endurance Society as an example: Du obtained approval from the Chiang Kai-shek government and registered this society in the French Concession in 1932. Members of this society were billionaires and politicians rather than displaced/unemployed

<sup>14</sup> The Zhi Clique of warlords was the most powerful military organization in east China in the early 1920s.

<sup>15</sup> Zhang Renkui was an important Green Gang leader in the Republican Period (1912–1945).



migrants (Qin 2009). Du's Endurance Society had 223 members in April 1934, among them 120 businessmen, thirty police officers, twenty-seven government officials or party members, eleven military officers, and a number of bankers (He 2009a). Applicants preparing to seek membership of the Endurance Society needed to get recommendations from two society members, and qualification requirements and admission standards were strictly enforced. Furthermore, entry into the Endurance Society entailed elaborate initiation ceremonies (Guo and Fan 1986).

The Benevolent Society, established in 1935, and the Loyalty Society, established in 1936, adopted a similar organizational structure: rankings within new societies were determined by influence rather than the 'generational hierarchy' (He 2009a). This created favourable conditions for the Shanghai Green Gang to extend its influence in Shanghai's economic and political systems. These new societies created by Green Gang bosses benefited from their close ties with the Chiang Kai-shek government, but the establishment of the new societies did not change the nature of the Shanghai Green Gang, which still derived its main source of income from illegal businesses.

### **Green Gang's Infiltration in Legal Markets**

The establishment of legal fronts and their close ties with political and commercial elites enabled Green Gang bosses to exploit Shanghai's booming economy by expanding their sphere of influence to legitimate areas including banking, shipping, and food supply (Su and Chen 2004).

#### ***Banking***

The three Shanghai tycoons, especially Du Yuesheng, expanded their sphere of influence in Shanghai's legal industries. Du succeeded in establishing himself as a business leader through investing in banking, the shipping industry, the city's food supply, and the establishment of the Shanghai Municipal Fish Market (Martin 1996). With the help of the famous banker Qian Xinzhi, Du established the Zhonghui Bank in 1929 (Su and Chen 2004). In contrast with ordinary banks that offer public services, the Zhonghui Bank was established for providing personalized services to opium drug traders and Green Gang members (He 2009a).

In the 1930s and 1940s, Du Yuesheng exerted great influence on Shanghai's banking system (Bao 2010). For example, he was able to pose serious threats to the survival of financial institutions by ordering a large number of Green Gang members to withdraw their deposits or demand cash at the same time. On the other hand, banks under Du's protection were able to survive without strong government support even in a deep recession. For example, the Zhonghui Bank rescued the Shanghai Commercial Bank and the Siming Bank from bankruptcy (Xu 1982). Martin (1996) reveals that:

Du Yuesheng took over the Jiangsu-Zhejiang Commercial and Savings Bank in 1936. He also established the Minfu Union Commercial Bank (*Minfu Shangye Chuxu Yinhang*) in August 1933, and two years later he was instrumental in the establishment of the China Investment Bank (*Guoxin Yinhang*), in association with his fellow Green Gang boss Zhang Xiaolin and leading Shanghai bankers such as Lin Kanghou. Du also had major interest in both Pudong Commercial Bank (*Pudong Shangye Chuxu Yinhang*), which had been set up in 1928 and of which he became chairman some years later, and the Bank of Asia (*Yazhou Yinhang*), which was established in 1934 by Li Yaozhang and others ... Du set up two banks in Chongqing, the Yong Cheng and the Fu Hua, in association with the Sichuan warlord Fan Shaozeng, one of his business partners in the narcotics traffic, and Gu Jiatang, a leading member of the Small Eight Mob. (p. 195)

Du's hegemonic position in the Shanghai banking world meant that nobody could open or run a bank without his permission. His position was unassailable.

### *Shipping*

In 1933, Du Yuesheng gained control over the Da Da Steam Navigation Company (DDSN) (Guo 1999b). The acquisition of the DDSN enabled Du to monopolize the shipping industry in the northern region of Jiangsu province. The DDSN, established by the Zhang Family—Zhang Jian and Zhang Cha—in 1903, was a leading enterprise that dominated the shipping routes from Shanghai to Yangzhou (Su 2010).

The DDSN faced a range of challenges during the 1920s and the early 1930s, challenges that created good opportunities for Du to get involved. First, as is typical in China even today, the company suffered a crisis of reputation when company head Zhang Jian died in 1925. Second, Zhang Cha was forced to resign because he was

designated a 'reactionary' by the Chiang Kai-shek government. Third, the DDSN lost all its savings in 1930 due to the collapse of its banker, the Deji Native Bank (*Deji Qianzhuang*). The final blow was a maritime disaster in 1931, resulting in the death of over 1,000 passengers and the sinking of two steamers (Guo 1999b).

With the help of Yang Guanbei, who was one of Du's economic advisors, Du Yuesheng obtained absolute control over the DDSN. As Martin (1996) observes:

Taking advantage of the DDSN's financial disarray, Yang Guanbei sought to gain leverage in the company by arranging for the Zifeng Native Bank (*Zifeng Qianzhuang*) to purchase a nominal shareholding of Ch\$3,000 in the DDSN on behalf of himself and Du Yuesheng ... During the negotiations over the composition of the new Board of Directors, Du strengthened his position by resort to strong-arm gangster tactics. (p. 203)

By using Du's influence in the Green Gang, the company's business experienced a change from bad to good (Martin 1996). For example, Yang Guanbei managed to resolve disputes between the DDSN and bandits by using Du's social networks with senior Green Gang members in Jiangsu province. All commercial enterprises in the Lake Hongze region, including the DDSN, were disrupted by frequent robbery conducted by bandits, most of whom were Green Gang members. In order to deal with this problem, Gao Shikui, an influential Green Gang member, was invited by Du Yuesheng to persuade these bandits not to disturb DDSN's businesses (He 2009a; Martin 1996). The bandits agreed to 'protect' the DDSN when they realized Du Yuesheng was the company's new boss. In return, many bandit leaders were invited to join the DDSN and take a share of the profits (He 2009a). As a result, the DDSN again became the dominant enterprise in southern Jiangshu.

In the same period, Du Yuesheng and Yang Guanbei set up the Da Xing Trading Company (*Da Xing Maoyi Gongsì*) in Shanghai. This company was a trading conglomerate 'that not only ran separate shipping services for passengers and freight but also provided agency services for local merchants, which even included arrangements with the Shanghai banks for a bills of exchange facility' (Martin 1996: 205). The acquisition of the DDSN and the creation of the Da Xing Trade Company contributed enormously to commercial and industrial development in Jiangsu and Shanghai, establishing Du Yuesheng as a prominent business leader.

### *Food supply*

Controlling fish supply chains was another important business for the three Shanghai tycoons, because ‘the Shanghai market in the 1930s represented about half of the estimated total annual demand for fish in China, just under Ch\$51 million out of Ch\$100 million’ (Martin 1996: 208). Huang Jinrong controlled the distribution of fish in Shanghai until the mid-1930s through his ‘sworn brother’ relations with twenty-three fish traders located in the Marche de l’Est (Su 2010). Du Yuesheng had also been involved in the fish business since he became one of Huang’s leading followers.

Huang was gradually replaced in the fish business by Du Yuesheng, because Du managed to set up stronger ties with the government. In 1933, the Chinese authorities planned to establish a central fish market in order to ‘gain access to the largest and most profitable fish market in China, as well as to control the supply of basic food items in Shanghai’ (Martin 1996: 209). This plan was consistent with the ambition of Du Yuesheng, who sought to enlarge his influence in the frozen fish business. As a result, the Shanghai Municipal Fish Market, located on the Point Island site, opened for business in 1936, and Du Yuesheng was appointed Chairman of the Board of Directors (Yao and Qiu 2001).

The relocation of the fish market, however, directly undermined the dominant position of Huang Jinrong (Martin 1996). In order to protect his interests, Huang encouraged thirteen seafood traders to go on strike to express their dissatisfaction with the compulsory relocation. After identifying the causes of this protest, Du Yuesheng persuaded Huang Jinrong to support the relocation by promising to guarantee Huang’s interests in the new system, and Du did fulfil his promise (Bao 2010). Consequently, the government managed to persuade the fish traders and the Zhoushan ‘fish barons’ (who owned the fishing fleets) to conduct all transactions in the Shanghai Municipal Fish Market.

### **The Downfall of the Shanghai Green Gang**

Mutually beneficial networks between the Shanghai Green Gang and the Chiang Kai-shek government deteriorated after Japan lost the war in 1945. This was due to a combination of reasons. The formal return of most concessions to the Chiang Kai-shek government meant that the Shanghai Green Gang could not continue to earn its

living by exploiting the vacuum created by divided and conflicting police jurisdictions. Meanwhile, the Chiang Kai-shek government had become strong enough to control Shanghai through its military and the police rather than by obtaining help from gangsters. In other words, the end of the war with Japan signalled that the Shanghai Green Gang was no longer important to the Chiang Kai-shek government. As Du Yuesheng said, 'Chiang Kai-shek treats me as a urinal device: he only comes to me when he is in need, otherwise he puts me under the bed' (Guo 2004: 38).

After the victory of China in the war with Japan, state power was finally strong enough to fulfil the social obligations that the Green Gang had previously fulfilled in Shanghai. The Chinese government therefore viewed the Green Gang as a deviant social organization, damaging public order and the fundamental functions of the financial system. The Chinese Civil War (1945–1950) between the Chiang Kai-shek government and the Communist Party of China did not bring any hope for the Green Gang. The communist conquest of China in 1949 marked the end of Chinese secret societies.

Du Yuesheng left Shanghai for Hong Kong in 1947. Du held secret talks with the communists in order to weigh the advantages and disadvantages of cooperating with the Communist Party or the Chiang Kai-shek government, finally deciding not to cooperate with either. He refused to return to Shanghai after the Communist Party of China occupied the city; this is because he was fearful of possible reprisals from the communists due to his involvement in the April 12 Incident (Xiao 2001). Du also refused to fly to Taiwan, because the Chiang Kai-shek government would not appoint him to an important position. He settled in Hong Kong, where mental stress and low living standards brought him serious health problems and he died on 10 August 1951 (Lu 2004).

Huang Jinrong did not leave Shanghai for two reasons. First, he would lose everything he possessed because most of his followers and his properties (e.g. entertainment centres and gambling dens) were based there. Second, Huang was persuaded by the Communist Party of China that they would ensure his safety and protect his property (Lu 2004; Xiao 2001). But the Party did not keep its promise. Huang Jinrong was forced to close all his illegal businesses. The Party was also keen to suppress the Green Gang and ordered Huang to write a statement of repentance (Wang 2006). This statement of repentance persuaded most Shanghai

Green Gang members to end their resistance to the Communist Party. Huang Jinrong died on 22 June 1953, marking the end of the 'three Shanghai tycoons'<sup>16</sup>.

From 1949 to 1953, the Chinese Communist Party, under the leadership of Chairman Mao, succeeded in eradicating secret societies (e.g. the Heaven and Earth Society, the Green Gang, and the Red Gang) in mainland China. They managed this through a series of campaigns: eliminating anti-communist gangsters, prohibiting the opium trade, and forbidding the prostitution industry.

Cracking down on anti-communist gangsters was an important task for the Chinese Communist Party, because gang members colluding with the Kuomintang played an important role in anti-communist activities, for example, the involvement of the Shanghai Green Gang in the Shanghai massacre of 12 April 1927. From the establishment of New China in 1949 until June 1950, over one million gangsters were arrested and sentenced to prison (Tan and Peng 2002).

The opium trade, as the main source of finance for Chinese secret societies during the late Qing dynasty and the period of the Republic of China, was also targeted by the new Chinese government (Qin 2009). The Chinese Communist Party adopted a series of strategies to prohibit drug trafficking and illicit use of drugs, such as establishing drug rehabilitation centres, providing compulsory treatment for drug abuse, and launching wars against drug trafficking (He 2009a; Tan and Peng 2002).

Before the establishment of New China, tens of thousands of brothels located in different cities and provinces resulted in the wide spread of sexually-transmitted diseases. From 1949 to 1960, the Communist Party of China launched a series of campaigns to eradicate prostitution in mainland China (Ma 1993). Meanwhile, a large number of correctional institutions were created in order to accommodate these prostitutes, treat their illnesses, and help them back into society. By the late 1950s, all the brothels were closed and the transmission of sexually transmitted diseases was under control (Su and Chen 2004).

He Bingsong, one of China's leading criminologists, argues that the success of the Chinese Communist Party in eradicating

<sup>16</sup> Zhang Xiaolin, one of the 'three Shanghai tycoons', chose to assist the Japanese government during the Sino-Japanese war. He was assassinated by his own bodyguard who had been bribed by the Chiang Kai-shek government in 1940.

long-standing secret societies was due to large-scale ‘mopping-up’ campaigns as well as violent repression (He 2009a). Shortly after the Communist takeover in 1949, senior gang members who refused to cooperate with the Communist Party of China were massacred (also see: Qin 2009).

In contrast with He Bingsong’s viewpoint, the author argues that the apparent extinction of organized crime in the Mao era was closely associated with the disappearance of large-scale ‘floating’ populations (displaced and homeless immigrants). A large number of gang members and prostitutes were sent to reform centres and re-entered society as workers after the accomplishment of their socialist transformation. Moreover, spatial movement was extremely limited in Mao’s China: all citizens, primarily peasants and industrial workers, were not allowed to leave their working groups (Bian 1994a).

The political–criminal nexus was destroyed because secret societies were designated as ‘enemies of the people’ in Mao’s China rather than as quasi-law enforcers doing dirty jobs for the Chiang Kai-shek government. Furthermore, citizens lost all private property rights after the socialist transformation of agriculture, hand-crafts, industry, and commerce. Drawing on Gambetta’s (1993) and Varese’s (2001) theories, it can be argued that this great transformation of society and the establishment of the centrally-planned economy eliminated the fertile soil for breeding organized crime groups.

The Great Proletarian Cultural Revolution in the period 1966–1976, however, threw China into a state of anarchy. As Tsou argues, the Cultural Revolution ‘not only destroyed the Party organization and badly disrupted the government bureaucracy, but also inflicted serious damage on the relationship of authority which had been established in Communist China’ (Tsou 1969: 90). Most scholars and the current Chinese authorities believe that organized crime did not exist in mainland China during the period of the Cultural Revolution (He 2012). In contrast with the mainstream viewpoint, Qiu Geping argues that a certain type of protective association (or extra-legal protection group) could emerge in a state of anarchy so as to offer protection and social services for needy persons.<sup>17</sup>

The socialist transformation of industry and commerce and the collectivization of agriculture resulted not only in the disappearance of private property and commercial transactions but also in

<sup>17</sup> Qiu Geping, personal communication, e-mail message to author, 15 December 2010.

the extreme poverty of the common people. This may imply that openings existed for mutual-aid associations that guaranteed the basic living needs of helpless citizens. The resurgence of mutual-aid associations and their activities during the Cultural Revolution could offer a new direction for the study of extra-legal protection in China.

## Conclusion

The historical aspects of Chinese organized crime examined in this chapter provide a useful resource for those wishing to better understand how the cycles of Chinese organized crime have risen and fallen from the Qing dynasty (1644–1911) through the Republic of China (1912–1949) to the ‘Mao era’ (1949–1976), and examines why and how the Shanghai Green Gang managed to control illegal markets (e.g. opium trade and gambling) and exert great influence on legal markets (e.g. banking, shipping, and food supply) in the Republic of China period.

The emergence of secret societies (e.g. the Heaven and Earth Society, the Green Gang, and the Red Gang) was closely associated with the rise of a large number of unemployed and homeless people, a result of the collapse of the ancient small-peasant economy. External invasions by western countries as well as internal turmoil caused by the Taiping Rebellion and other rebellions throughout the country seriously weakened the Qing government, making it unable to offer sufficient public protection and social welfare to these displaced people. Mutual-aid and brotherhood organizations (secret societies) therefore emerged to replace the government by offering protection and basic living necessities to their members. Illegal businesses, from salt smuggling and robbery to drug trafficking, constituted their main source of income.

The Shanghai Green Gang, the most influential criminal organization in the first half of the twentieth century, illustrates the role of the gang in both legal and illegal markets. It arose to fill a vacuum of power created by divided and conflicting police jurisdictions and became a pseudo-government, providing essential state functions not only for the Shanghai criminal underworld but also for legitimate businesses in the French Concession and the International Settlement.

The gang employed criminal constitutions to achieve illegal control—the regulation of members’ behaviour as well as the



prevention and resolution of internal conflicts. The gang also managed to control the opium trade and the gambling industry through establishing mutually beneficial networks with the colonial authorities and warlords in east China. Collusion with the Chiang Kai-shek government and the creation of legal fronts enabled the Shanghai Green Gang to expand its sphere of influence to legal markets such as banking, shipping, and food supply. This historical review of the Shanghai Green Gang suggests that the building of a political–criminal nexus between it and the government enabled the gang to flourish, but the collapse of this nexus resulted in its downfall. The study of Chinese organized crime therefore needs to take a close look at the political links possessed by criminal syndicates.

## **PART II**

### **Extra-legal Protection in Contemporary China**



# 3

## Why the State Fails

### Conflicts between Law and Guanxi

The mafia will emerge where the increasing demand for protection cannot be suitably fulfilled by state enforcement (public law and state courts) and where legal enforcement agencies do not possess competitive advantage over extra-legal protectors. Gambetta (1993) and Varese (2001) identified fundamental weaknesses in the formal legal system that lead to the growing demand for extra-legal protection, including confusing legal framework, ambiguous definition of property rights, weak judicial system, limited enforcement, and rampant corruption. This chapter looks at how the demand for extra-legal protection is created in contemporary China. A thorough examination of conflicts between guanxi—a Chinese form of social network—and the formal legal system offers a unique perspective for the understanding of why China fails to satisfy citizens' growing demand for protection.

Guanxi is an important aspect of daily life as it can widely affect company performance and individual behaviour (Gu et al. 2008). Within the emerging literature on guanxi, two issues are emphasized by China scholars: the historical and cultural roots of guanxi, and the shifting patterns of guanxi practice (Chen and Chen 2004; Gold et al. 2002; Guthrie 1998; Lovett et al. 1999; Luo 2000; Yang 2002). Much empirical research highlights the enduring significance of guanxi in Chinese society where business behaviour revolves around personal relationships (guanxi) and China's legal system is heavily influenced by guanxi. This suggests that people's behaviour is not only influenced by economic considerations and legal institutions, but also circumscribed by their guanxi networks (Michelson 2007; Redding 1993; Zhan 2012).

Meanwhile, legal scholars and social scientists have explored China's judicial reform, discussed the growth of law and legality,

criticized China's global road to judicial independence, and identified the challenge of rule of law reforms (Orts 2001; Peerenboom 2009; Potter 1999; Woo and Gallagher 2011). Drawing on the existing research on the legal institutions as well as the guanxi network, a series of scholars have conducted extensive research on the co-existence of and interactions between these two most influential systems (Li 2003; Schramm and Taube 2003a; Xin and Pearce 1996). However, there is no existing literature examining whether the co-existence of both systems can sufficiently support economic activities and fully meet the current demand for protection.

China's economic reform is associated with the revival of private property and the establishment of a socialist market economy. This, however, has not been accompanied by the creation of an effective legal system that assures truth, justice, rectitude, efficiency, and effectiveness (Gong 2004; Li 2012). Under such circumstances, Chinese people tend to use guanxi 'to make up for the lack of the rule of law and transparency in rules and regulations' (Dunfee and Warren 2001: 197; Zhang et al. 2009: 492). Most China scholars stress the positive side of guanxi by discussing the substitutive and complementary relationships between the guanxi network and the legal system (Luo 2000; Peng 2003; Xin and Pearce 1996). But the existing literature neglects the negative influence of guanxi practice on China's legal system. The Chinese government, as this chapter will argue, lacks the ability to solve the problem of corruption that is embedded in the guanxi network.

The aim of this chapter is to examine the impact of the coexistence of both systems (guanxi and law) on Chinese society. The coexistence does not necessarily result in a positive outcome (see also Gu et al. 2008). Guanxi (practice) in contemporary China, as this chapter argues, damages the performance of the formal legal system and creates the demand for extra-legal protection. The structure of this chapter is as follows: it firstly describes how private property rights are created, and discusses the process of recognizing private property and constructing the legal system in China. It then focuses on the definition issues of guanxi, and analyses the changing roles of guanxi practice since economic reform began. Most importantly, it develops a framework for studying the institutional interactions between guanxi and the formal legal system. It adopts an institutional approach to assess the ability of their coexistence to protect property rights, enforce contractual or relational agreements, secure business transactions, and resolve disputes. It concludes that guanxi

in contemporary China has transformed from a complementary institution to an informal institution that both destroys the formal legal system and contributes to the rise of extra-legal protectors.

## **Establishing the Legal System for China's Economic Reform**

In contrast to Eastern Europe and the former Soviet Union, which followed the 'shock therapy/big bang' path, China's economic transition from a centrally planned to a market-oriented system adopted a gradual approach and has achieved spectacular growth since 1978 (Holz 2008; Lin et al. 1996; McMillan and Naughton 1992; Naughton 1996). Economic growth and the construction of a market economy require the state to establish an institutional framework offering stable and predictable property rights and contracts, and provide effective mechanisms for addressing disputes and conflicts (Clarke et al. 2006; Nee 2000; Xu 2009b). In order to understand how China's reform has been carried out, this section centres on three aspects: the wide creation of private property rights, the recognition of private property rights, and the growing importance of China's legal institutions.

### *Reform as a reassignment of property rights*

From the Qin Dynasty (221–206 BC) to the last Emperor in 1911, China was a country where people recognized the supreme authority of the emperor. The emperor had absolute power to determine his people's way of life, rights, and obligations. Imperial power could easily reach every corner of the country (Zhang 2008c). After the establishment of the new China in 1949, Mao Zedong, the founding leader of the People's Republic of China, adopted Soviet-style socialism and regarded Marxism–Leninism as the ruling ideology of the country (Lifton and Mao 1969). 'Public ownership' in Chairman Mao's theory was the core element of socialism, and 'private ownership' was characterized as 'evil' (Xu 2009b; Zhang 2008c). At the beginning of the country's first five-year plan in 1953, the government stepped into the period of transition from capitalism to socialism, and accomplished the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce in late 1956 (Mao et al. 1992). As a result, private property was completely abolished by the Communist Party,

and private enterprise almost completely disappeared (Qin and Zhou 2008).

After the death of Mao in 1976, Deng Xiaoping and his followers organized a nationwide discussion called 'Practice as the Sole Criterion for Testing the Truth' to question Mao's socialist theory, re-evaluate Mao and his legacy, and help the victims of the Cultural Revolution (1966–1976) regain their power (Lee 1991; Zhang 2008c). The Third Plenum of the Eleventh Chinese Communist Party Congress held in 1978 marked the Party's shift from 'class struggle' (against capitalism and the bourgeoisie) to 'economic development', signalling the beginning of the reform era (Qian 2000). One significant change brought by the economic reform was the end of the single-public-ownership structure of the country (Zhang 2008c). In contrast to other post-socialist countries, China's economic reform is characterized by extensive reassignments of property rights without wholesale privatization. As Walder and Oi (1999) argue:

Reform in China has proceeded through the gradual reassignment of specific property rights from higher government agencies to lower government agencies, or from government agencies to enterprises, managers, families, or individuals. This has occurred gradually, and different ownership forms have held sway in different parts of the economy at different times.<sup>1</sup> (pp. 6–7)

According to Smyth (1998) and Xu (2009b), a 'revival' of private property has been associated with China's economic reforms in three ownership sectors since 1978: (1) reforms in agriculture; (2) reforms in the non-state sector; (3) reforms in the state sector. These three reforms are described briefly in the following paragraphs.

China's economic reform began in agriculture. Huang (1998) divides China's agricultural revolution into three stages: land reform in the 1950s; the establishment of the household responsibility system in the early 1980s; and market reforms in the early 1990s. After the collectivization of agriculture in 1956 and the establishment of People's Communes in 1958, the daily activities of China's agriculture were organized under the production team system for about twenty years (Lin 1988; Schultz and Yi 1999).

<sup>1</sup> Walder and Oi (1999) also used 'Reform as a reassignment of property rights' as the subtitle in their co-authored book chapter.

The production team was the basic agricultural collective unit for production and distribution. The production team system also adopted a work point system, which was used to assess the quality and quantity of work done and 'collective income at the end of the year was determined by the number of work points accumulated plus the value of each work point' (Perkins 1988: 605). The political working point system infringed on 'the right of peasants either to sell or otherwise utilise their own labour' (Smyth 1998: 237). Moreover, in order to subsidize industrial development, the Unified Purchase and Marketing System (UPMS) monopolized grain purchases and marketing and forced farmers to sell agricultural products to the state at low prices (Smith 1998). In addition, the majority of peasants were forced to work for various public construction projects, such as dam construction, without payment (Smyth 1998).

The major change was the introduction of the 'household responsibility system', which was officially allowed to exist in poor areas in the fall of 1979 and was almost fully adopted in 1983–1984 (Huang 1998). The implementation of the new system has been recognized as the first successful reform in China, which necessarily put peasants in a better socio-economic position. Under the responsibility system, households were entitled 'partial' property rights. It means the government gave households the right to use and the right to appropriate the surplus from the land, while not recognizing the right to transfer the land (Qian 2000; Yang et al. 1992). This gave rise to two major consequences. Firstly, it became increasingly difficult for the UPMS to exercise monopoly power over grain purchasing and marketing, as farmers were less likely to accept prices that were less than the marginal cost of production (Huang 1998). Secondly, a set of agricultural reforms, starting in 1978, not only dramatically increased the food supply, but also produced a large surplus labour supply. Meanwhile, an unequal pace of economic development between rural and urban areas motivated people to migrate to towns and cities for a better life. These factors gave rise to the emergence of the floating population in China (Liu 2011b; Seeborg et al. 2000).

The third stage was agricultural market liberalization. Under the household responsibility system, the household was assigned to pay a fixed tax to the government. After fulfilling the obligation, the household was free 'to produce and sell whatever it considered profitable, and to retain any profit' (Qian 2002: 18). Huang (1998)



argues that 99 per cent of counties had adopted price liberalization by the end of 1993, but the increase in the price of grain after 1994 led to a pull-back from market reform. Thus the third revolution was not complete in the 1990s. Since 2000, in order to ease the financial burden on peasants and avoid the political costs of collecting off-budgetary revenue, the central government 'took bolder steps to prohibit illegal land seizure and abolished all surcharges in 2001 and agricultural taxes in 2006' (Liu 2012b: 318).

Reforms in the non-state sector are an important part of China's economic reform. Ito (2006: 168) suggests that Township–Village Enterprises (TVEs or *xiangzhen qiye*) can be categorized into two broad aspects: 'collectively owned enterprises (COEs) run by township or village governments' and 'non-public enterprises established by farmers solely or jointly after the Open Door Policy in 1978'. Guo (1999a) argues that 'each level of government administration has a specified category of *xiangzhen qiye*'. Based on Ito and Guo's arguments, COEs can be further divided into three major types: county-run COEs, township-run COEs, and village-run COEs.

The non-state sector has increased in importance since China began its economic reform in 1978, and the collective sector became the dominant part of the non-state sector and of the local economy in the late 1980s and 1990s (Smyth 1998). For instance, private enterprises contributed around 15 per cent of national industrial output in 1993, while collectively owned enterprises contributed 42 per cent of national industrial output in the same year (Qian 2002).

The contribution of COEs to national gross industry output reached a turning point in 1997. At that time, both the central government and the local government raised their concerns about the future economic health and long-term sustainability of China's township enterprises (Li and Rozelle 2003). As Ito (2006) and Sun (2002) suggest, three major factors drove the process of privatization in the non-state sector. Firstly, in order to reduce growing fiscal burdens, the community government was reluctant to use government resources 'to cross-subsidize its COEs and to guarantee more loans for them', thus the bad performers were the first to be privatized (Sun 2002: 257). Secondly, the nationwide introduction of the Shareholding Cooperative System (SCS) in the late 1980s resulted in dispersed COE property rights, which was regarded as

the beginning of a privatization initiative. Thirdly, the tax structure was significantly changed when the central government started its Tax Sharing System (TSS) in 1994, which 'posed new challenges to local cadres because collective assets became liable to state-controlled taxation' (Ito 2006: 172). Moreover, due to the lack of restraints from county government, the increasing number of community-run TVEs significantly facilitated excessive government rent-seeking and corruption (Sun 2002).

In order to deal with these problems, since the mid-1990s, rural China has experienced a fundamental and widespread privatization movement. Li and Rozelle (2003) suggest the most significant features of this process are that: (1) local government sold most firms—92 per cent—to insiders, especially to managers; (2) complex methods were applied to assess the value of the firm's assets and debts. According to *China Statistics Yearbook*, the percentage of industrial output contributed by COEs increased from 22.37 per cent in 1978 to 39.39 per cent in 1996 and then experienced a significant decline in the following years and was down to 6.65 per cent by 2003 (Lu et al. 2010).

Moreover, the examination of China's economic reform needs to consider reforms in the state sector. Experimenting with state-owned enterprise (SOE) reform began even earlier than agricultural reform. From 1978 to 1983, the central government introduced a series of reforms, such as expanding enterprise autonomy, introducing profit retention schemes, and implementing the 'economic responsibility system' (Qian 2000; Smyth 1998). But the SOE reform was disappointing. The Third Plenum of the Twelfth Party Congress held in October 1984 adopted a decision on China's economic reform, resulting in a significant change in ideology from 'plan as a principal part and market as supplementary part' to 'planned commodity economy' (put plan and market on equal footing) (Qian 2000). The Chinese Communist Party made two primary reform programs: 'the dual-track approach to market liberalisation' and 'contract responsibility system' in SOEs. The basic principle of the dual-track approach, emphasized by Qian (2002), is as follows:

Under the plan track, economic agents are assigned rights to and obligations for fixed quantities of goods at fixed planned prices as specified in the pre-existing plan. At the same time, a market track is introduced under which economic agents participate in the market at free market

prices, provided that they fulfil their obligations under the pre-existing plan. (p. 15)

The government experimented with the Contract Responsibility System (CRS) in the early 1980s and all the SOEs gradually adopted it to govern relationships between themselves and the state. Hassard et al. (2010) argue that there were two forms of state-enterprise contracts: 'enterprises would either turn over a fixed percentage of their profits each year to the state or turn over a set amount of profits annually' (p. 502). In this case, there is no privatization in the state-owned sector at all until the mid-1990s. Although the central government accepted a set of reforms of the state-owned sector, the programme as a whole was deemed a failure (Hassard et al. 2010; Siqueira et al. 2009). In 1992, the Chinese Communist Party reset the 'establishment of a socialist market economy' as the ultimate goal of economic reform. In 1995, the CRS was officially terminated and Chinese SOEs moved towards marketization by adopting two different strategies: privatization of small SOEs and 'corporatization' of medium and large SOEs.

The privatization of small SOEs and widespread lay-offs from SOEs were two of the most significant features of Chinese society in the late 1990s. Under the slogan 'grasping the large and letting go of the small' (*zhuada fangxiao*), the central government and the local governments engaged in 'selling off small and medium SOEs to private individuals and keeping the large SOEs' (Siqueira et al. 2009: 209). During this process, a great number of profitable SOEs were privatized or had their assets stripped. Qian (2000) discloses the details of this large-scale privatization:

One interpretation of 'grasping the large' is to keep about 1,000 large enterprises as state owned ... by the end of 1996, up to 70 percent of small SOEs had been privatized in pioneering provinces and about half were privatized in many other provinces. (pp. 22–23)

Meanwhile, two related models of reform, the Modern Enterprise System (MES) and Group Company System (GCS), were launched to replace the CRS programme (Hassard et al. 2010). This reform process for SOEs was designed to promote the 'corporatization' of medium and large SOEs (Hassard and Sheehan 1997). To be specific, the primary aim of the MES programme was to promote new enterprise management mechanisms, whereas the GCS was intended to create large internationally-competitive companies (Hassard et al. 2007).

### *Recognition of private property rights in China*

Private property rights have been widely established in mainland China through three sets of reforms: agricultural reform, privatization in the non-state sector, and reform in the state sector. Economic transformation requires an appropriate set of corresponding legal frameworks centred on the protection of property rights, the enforcement of contracts, and the provision of physical and organizational infrastructure (Dixit 2003; Posner 1998). However, private property rights were not officially recognized as one kind of constitutional right until the fourth amendment of the 1982 Constitution in 2004 (Xu and Murphy 2008; Zhang 2008c). It took twenty-six years from the beginning of the economic reform to the official recognition of private property rights for many reasons, but 'the most significant one is perhaps the clash between the drives for socialism and the concerns about capitalism' (Zhang 2008c: 8).

Since the establishment of new China in 1949, it has had four constitutions: the first one was adopted in 1954, and then it was rewritten in 1975, 1978, and 1982. The 1982 Constitution was further amended in 1988, 1993, 1999, and 2004 (Zhang 2008c). Constitutional amendments pertaining to the selective rehabilitation of the 'private', summarized by Xu (2009b), are listed as follows:

Acknowledgement of the 'individual economy' (*geti jingji*) (1982); acceptance that a private economy (*siren jingji*) would be allowed to develop within the limits prescribed by law; recognition of urban land use rights transfer (1988); establishment of a 'socialist market economy' (1993); acceptance of the individual and private economy as important components of the socialist market economy (1999); and finally recognition of important private property rights (2004). (p. 97)

At the outset of the reform era, the law had a new and important role to play—regulating the operation of state-owned enterprises (Clarke et al. 2006). A prime example was the Bankruptcy Law, passed in 1986. The great expansion in the number and importance of privately-owned enterprises required the legal system to provide sufficient protection and effective enforcement for safeguarding economic activities, but the legal system did not provide much in the early 1980s (Clarke et al. 2006: 8). Nevertheless, formal legal institutions became more responsive over time. Clarke et al. (2006: 8) also suggest that the co-evolution of economics and the law can be 'exemplified in the sphere of foreign interactions'.

China's domestic legal system in the early reform-era was an obstacle for attracting foreign investors, which persuaded the Chinese government to establish a separate legal system for foreigners. The Chinese government found that the divided legal system confused foreign investors; this confusion was the major contributing factor to the decision to unify the separate legal regimes. The whole period of economic reform saw a mountain of laws and regulations enacted at the central and local levels. The absence of a systematic statement of the law of property was commonly regarded as one significant gap in China's legal structure governing economic activity before 2007.

After the adoption of 'Decision on Issues Concerning the Establishment of a Socialist Market Economic Structure' by the Third Plenum of the Fourteenth Congress of the Chinese Communist Party in 1993, two teams, headed by Wang Liming and Liang Huixing respectively, were organized by the central government to draft the Property Law. After a fourteen-year legislative marathon, the Property Law of China was passed by the National People's Congress on 16 March 2007. The Property Law put private property on an equal footing with public property for the first time since 1949 (Zimmerman 2010). Zhang (2008c) underlines the significance of the Property Law by pointing out that:

The Property Law is a significant piece of legislation in China because it on the one hand fills in the 'legal blank' in the country with regard to private property, or property in general. On the other hand, it helps enhance the legal infrastructure of the country by establishing a framework that is badly needed for the regulation and protection of property rights. More importantly, the Property Law reinforces the 'inviolable' nature of private property, a concept that was constantly denied in the country until 2004 when the 1982 Constitution was amended the fourth time. (p. 5)

### *The growing importance of China's legal system*

In order to support economic growth and restore and maintain public order, the Third Plenum of the Eleventh Central Committee of the Communist Party of China, held in late 1978, reached a consensus about the need to build a legal system (Potter 2004). After this plenum, China's legal system developed in three main ways: legislative drafting, institution building and the growth of the legal profession, and the adoption of specific measures to strengthen enforcement (Lubman 1999; Peerenboom 2002b).

Law-making is essential for the Chinese government to build its legal system. During the initial period of legislative drafting (1978–1984), China's top legislature, the Standing Committee of the National People's Congress, focused its attention on areas of crime and punishment, public security, taxation, foreign investment, and contracts (Potter 2004). The second stage of legislative drafting included the adoption of the General Principles of Civil Law, the 1998 amendment of the Constitution, the passage of the Administrative Litigation Law, and the laws relating to state-owned enterprises and foreign business (e.g. the Enterprise Bankruptcy Law, the Foreign Economic Contract Law, the Law on Wholly Foreign-Owned Enterprises, and the Sino–Foreign Cooperative Joint Venture Law) (Lubman 1999; Peerenboom 2002b). China's law-making in the third period, from 1989 to 1992, was slowing down as the June Fourth Incident<sup>2</sup> in Tiananmen Square in 1989 had disastrous effects on China's economic and legal reforms. As Clarke et al. (2006: 13) show:

This period saw a brief attempt by the leadership under Li Peng (the Chinese Premier) to roll back reform, recentralize, and strengthen central planning, but the logic of reform soon reasserted itself.

The fourth and current stage, from Deng Xiaoping's 'Southern Tour'<sup>3</sup> (*nanxun*) in January 1992 until now, witnessed the construction of the legal infrastructure for China's socialist market economy, and most recently, the new objective of building a harmonious society (Clarke et al. 2006). The changes in formal law and legal process in this stage included the amendments of the Constitution in 1999 and 2004, the amendment of the Economic Contract Law in 1993, and the passage of a series of laws, such as the Law Against Unfair Competition (1993), the Foreign Trade

<sup>2</sup> The June Fourth Incident, also known as the Tiananmen Square protests of 1989, refers to student-led popular demonstrations in Tiananmen Square, the centre of Beijing, China's capital city. The demonstrations aimed to enhance individual freedom and urge the Chinese government towards greater accountability. The protests were forcibly suppressed when hard-line leaders ordered the military to enforce martial law on 4 June 1989 (see also Ralston et al. 1995).

<sup>3</sup> The reason why Deng Xiaoping started his 'Southern Tour', as Zhao (1993: 740) argues, is that 'Deng resigned from his last office after the Tiananmen massacre; he had to come to the fore in early 1992 in defense of the reform policy he had launched thirteen years earlier at the third plenary session of the Eleventh Central Committee.'

Law (1994), the Price Law (1997), the Partnership Law (1997), the Anti-Dumping and Anti-Subsidy Regulations (passed in 1997 and reissued in 2001), the Administrative Licensing Law (2003), and the Property Law (2007).

The contemporary Chinese legal reform saw a continuing succession of legal changes and the passage of a series of major laws. As Peerenboom (2011: 118) states, 'between 1979 and 2005, 805 laws, 4,156 State Council administrative regulations, 58,797 ministry-level rules, and 115,369 provincial people's congress regulations were passed'.

The establishment of China's legal system has also been associated with institution building and the development of the legal profession. The transition to a market economy required legal institutions to serve 'as the mediators of the law and as the site for the performances of law' (Woo and Gallagher 2011: 7). This stimulated the demand for legal practitioners. Apart from legislative drafting, China's legal reforms also aimed at establishing the institutions and educating legal actors for implementing the rule of law. As Woo and Gallagher (2011) argue:

The Chinese state has implemented and encouraged the development of a wide array of competing legal institutions, ranging from the judiciary, the justice offices, and the legal affairs office to legal journals and periodicals—as well as a wide array of legal actors including judges, private lawyers, legal-service workers, and legal-affairs workers. (p. 7)

According to the Organic Law of the People's Courts (passed in 1980 and revised in 1983) and the 1982 State Constitution, China established four levels of courts in the general administrative structure. At the top of the structure is the Supreme People's Court; below it are the 32 Higher Level People's Courts (HLPC); below the HLPCs are 409 Intermediate Level People's Courts (ILPC); and at the bottom are the 3117 Basic Level People's Courts.<sup>4</sup> In addition to the establishment of the court system, China's economic reform saw 'the increase in the size and professionalism of the legal profession' (Peerenboom 2011: 118).

Law schools that were closed during the Cultural Revolution were reopened in the late 1970s, and the number of law schools

<sup>4</sup> See The Supreme People's Court of the People's Republic of China, 'Renmin fayuan jianjie' [The introduction of China's Court System], <<http://www.court.gov.cn/jigou.html>>, accessed 4 July 2012.

has increased from two in 1976 to 183 in 1999, and around 559 in 2005 (Su 2006). The number of law students has increased from 233 in 1977, to 25,000 in 1991, and 450,000 in 2005 (Peerenboom 2011). As a result, the number of judges has shot up, from around 60,000 in 1981 to about 106,000 in 1995, and over 190,000 in 2010.<sup>5</sup> At the same time, 'the number of lawyers has increased from a few thousand in the early 1980s to more than 130,000 today' (Peerenboom 2011: 117).

Given the lack of judges and the dearth of lawyers in the early years of economic reform, the professional requirements for becoming a judge, a prosecutor, or a lawyer were quite lax. As Clarke (1996) suggests, in the 1980s and 1990s, officials in China's judicial system were generally poorly educated, especially in Basic Level People's Courts, where a large proportion of judges were retired military officers. The year 2001 was the turning point of legal education and the legal profession. In that year, the amendments of the Judges Law, Prosecutors Law, and the Lawyers Law required all candidates for the State Judicial Exam to have a college degree except those from certain poor areas (Ji 2005). Peerenboom (2011) describes the development of the legal profession in China:

In 1997, only 33 percent of lawyers had college or graduate degrees. By 2004, two-thirds had such degrees: 11 percent had graduate degrees, 44 percent had bachelor of law degrees (LL.Bs), and 12 percent had undergraduate degrees in other subjects ... by 2004, 52 percent of judges were college graduates, up from 7 percent in 1995, and 44 percent of prosecutors and 51 percent of notaries also had college or graduate degrees. (pp. 117–18)

In addition to law-making and institutional building, the Chinese government has significantly improved its law enforcement. The most notorious problem in China's court system is that of enforcement—the courts' inability to enforce their own judgments.<sup>6</sup> This inevitably results in individuals and enterprises being unwilling to resort to the judicial system (Clarke 1996). While the recent publications evaluating the performance of the legal system show that enforcement of judicial decisions has significantly improved in urban areas, it remains a problem in township and rural areas (Zhu 2007; Peerenboom 2011). Regarding the

<sup>5</sup> Ibid.

<sup>6</sup> In mainland China, enforcement chambers (*zhixing ting*) have been set up by the great majority of basic level and intermediate level people's courts to take charge of the enforcement of judgments.



enforcement of commercial judgments, He (2008) notes that the majority of creditors or plaintiffs in urban courts who seek compulsory enforcement are able to receive all or partial payment.

Evaluating the efficiency of contract enforcement by tracking the time, cost, and number of procedures involved from the beginning of a lawsuit until actual payment, the World Bank's Doing Business 2009 survey states that China ranks 18th out of 181 countries in contract enforcement.<sup>7</sup> He and Peerenboom (2009: 15) demonstrate that 'enforcement in China may be less problematic than in many jurisdictions, including rich countries such as the United States, the United Kingdom, or Russia'.

Past research on the general perception of official justice shows increasing public confidence and trust in the judiciary. For instance, Michelson and Read (2011), analysing survey data from Beijing (2001) on popular perceptions of official justice, report that over 60 per cent of Beijing respondents have a positive perception of courts and police. In a national survey (2003–2004) of public trust in thirteen public and legal institutions in China, respondents ranked their trust in the courts fourth (behind the Chinese Communist Party, National People's Congress, and the procuracy) (Landry 2008).

To sum up, this section explores China's experience with gradual privatization and continuing changes in the legal system. Private property rights have been established through agricultural reforms, reforms in state-owned enterprises and the privatization of collectively owned enterprises. The revival of private property requires post-Mao China to enact legal reform and create at least modestly effective legal systems. Recent studies show increasing public confidence and trust in Chinese legal institutions, which can be a positive outcome of three decades of legal reforms aiming at legislative drafting, institution building, improving the professionalism of the judiciary, and enhancing law enforcement capability.

## **The Changing Role of Guanxi in Contemporary China**

In parallel with the formal legal system, guanxi plays an essential role in protecting property rights and resolving disputes. It has been widely acknowledged that guanxi (simply translated as

<sup>7</sup> World Bank & International Finance Corporation, *Doing Business 2009: Comparing Regulation In 181 Countries* 6 tbl.1.3, 97 (2008).

‘connections’ or ‘relations’) is one of the major dynamics in Chinese society (Luo 1997). According to conventional wisdom among Chinese and foreigners, guanxi in the People’s Republic of China is essential to the success of business deals and plays a significant role in the daily lives of people (Gold et al. 2002). For instance, guanxi networks play an important role in China’s emergent labour markets (Bian 1994a, 2002; Hanser 2002), in the emergence of lending and trade relations among firms (Keister 2002), and in creating business–state and business–government relations in China (Wank 2002).

A growing body of literature over the past three decades centred on two main questions: what type of phenomenon does guanxi represent in Chinese society? How can we explain its significance as China’s economy continues to develop? After long debates between cultural scholars and institutional theorists, China scholars have failed to reach a consensus on these enduring questions. Cultural scholars see guanxi as ‘a unique type of relationship or a behavioural pattern deeply rooted in Chinese history and culture, where “particularistic ties” have long been used for instrumental purpose’ (Chang 2011: 315). Culture-based elements, such as family, kinship ties, friendship circles, local conditions, and social norms and values from Confucianism have largely influenced the social interactions involved in the guanxi network (Dunning and Kim 2007; Fei et al. 1992; Hwang 1987; Jacobs 1979; Kipnis 1997; Tsui and Farh 1997; Yan 1996b). According to this perspective, guanxi retains its importance in China’s political, social, and economic life regardless of economic and political changes.

In contrast to the culture-based argument, institutional theorists suggest that guanxi practice should be reified as a reflection of broader institutional and historical changes (Gold et al. 2002). People tend to rely more on guanxi practice where social and economic resources are wholly controlled by the central government, and the legal protection of property rights and the judicial enforcement of contracts are far from sufficient to meet the increasing demand (Gold 1985; Guthrie 1998; Potter 2002; Xin and Pearce 1996). Institutional theorists demonstrate that personal connections are used to ‘bypass officially sanctioned, and onerous, bureaucratic procedures, solicit protection from more powerful actors, and acquire otherwise unavailable resources’ (Chang 2011: 316). In this view, social and economic changes in China can greatly contribute to the evolution of guanxi practice (Ledeneva 2008).

This section presents a comparative study of guanxi practice before and after 1978. It aims to test three hypotheses generated by China scholars: (1) as cultural scholars suggest, guanxi is embedded in China's culture and the Chinese way of life, thus economic forces and institutional changes are not sufficient to bring about major changes in its practice; (2) China's economic reform shows the resilience of guanxi and its latest developments (Yang 2002); (3) some institutional theorists argue that guanxi becomes less vital for Chinese people as a competitive market and a more developed legal system are established.

In order to explore guanxi practice before and after the 1978 economic reforms, three main aspects are incorporated in this section: the first part reviews the definition and intrinsic features of guanxi; the second part discusses guanxi practice before 1978, offering a general description of guanxi practice in Mao's China; the final part focuses on guanxi practice after 1978, exploring the role of guanxi and how it works in the new environment.

### *Defining guanxi*

The term guanxi does not have a precise English equivalent. It has traditionally been roughly translated as relationships between people, but it means more than this (Lee 2010; Michailova and Worm 2003). The Chinese word guanxi consists of two characters: *guan* and *xi*. The first character *guan* as noun originally meant 'door', but today often refers to 'a barrier' or 'a pass'; *guan* as verb refers to 'closing', and its extended meaning is 'doing someone a favour' (Fan 2002a; Luo 1997). The second character *xi* as noun means 'system', or 'formalization', or 'hierarchy', as verb means to 'tie up' or 'extend into relationships', *xi* is also sometimes used to refer to 'maintaining long-time relations' (Ambler 1994; Luo 1997).

The existing literature shows no consensus on the definition of guanxi. Jacobs (1979) interprets guanxi as connectedness or particularistic ties. Pye (1982) regards guanxi as friendship sustained by the continuing exchange of favours. Gold (1985: 660) defines guanxi as 'a power relationship, as one's control over a valued good or access to it gives power over others'. Hwang (1987) adds that guanxi is a type of reciprocal relationship. Osland (1990: 8) notes that 'the term [guanxi] refers to a special relationship between a person who needs something and a person who has the ability to give something'. Bian (1997: 369) suggests that guanxi literally

means ‘relationship or relation, but its essence is a set of interpersonal connections that facilitate exchanges of favours between people’. According to Bian (1994b), the term *guanxi* has multiple meanings: it can refer to the ‘existence of a relationship between people’ (‘indirect relationship’ or *jianjie guanxi*) (p. 974), or ‘actual connections or contact between people’ (‘direct relationship’ or *zhijie guanxi*) (p. 975). Drawing from a comparison of three types of *guanxi* (i.e. family *guanxi*, helper *guanxi*, and business *guanxi*), Fan (2002a) suggests a new definition:

*Guanxi* is the process of social interactions that initially involves two individuals ... the process will move on involving more parties, and stop only when a solution is finally found or the task is abandoned. (pp. 549, 551)

The Modern Chinese Dictionary indicates that a set of specialized terms derives from the word *guanxi* (Yang 1994). *Guanxixue* is identified as the art, technique, or study of establishing and manipulating *guanxi* (Gold 1985). If *guanxi* was defined as an established relationship, then *guanxixue* is the science or study of how to utilize and sustain this special relationship (Chen 2000). Gold et al. (2002: 6) point out the negative connotation of this term that implies ‘“going through the back door” to get something done, though it undeniably performs a positive function as well, especially if there is no formal “front door” available’. *Guanxihu* refers to people who possess strong connections or power to achieve a desired goal for themselves or other individuals (Bian 1994b). A *Guanxiwang* or a network of *guanxi* is the sum total or extent of one’s *guanxi*, comprising of both vertical and horizontal connections (Gold 1985). *Guanxi practice* is occasionally used interchangeably with *guanxi exchange*; both of them share identical meaning with *guanxixue*. As Yang (1994: 6) explains, *guanxi practice* involves a series of social interactions involved in *guanxi* networks, like ‘the exchange of gifts, favors and banquets; the cultivation of personal relationships and networks of mutual dependence; and the manufacturing of obligation and indebtedness’. Moreover, Li (2011b: 4) summarizes the equivalent Chinese expressions of *guanxi practice* as follows: ‘*Gao* (to make/play) *guanxi*’, ‘*la* (to pull) *guanxi*’, ‘*zou* (to go through) *guanxi*’, ‘*tuo* (to seek for/pursue) *guanxi*’, or ‘*guanxi yunzuo*’ (operation of *guanxi*).

Four characteristics of *guanxi*, suggested by Jiang et al. (2012), are reciprocity, utilitarianism, transferability, and intangibility. First, Chinese have ‘a strong sense of reciprocity for developing friendship

and saving face for themselves' (Su and Littlefield 2001: 201); a person will be viewed as untrustworthy if he/she violates the principle of reciprocity. Second, *guanxi* relations are maintained through mutual exchange of favours. *Guanxi* is a mixture of *ganqing* (affection/sentiments) and *renqing* (favours). *Renqing*, the precondition for establishing *guanxi*, 'provides a moral foundation for the reciprocity and equity that are implicit in all *guanxi* relationships' (Luo 2000: 15). *Ganqing*, as the 'affective component' of *guanxi*, is defined by Wang (2007: 82) as 'refer[ing] to feelings and emotional attachment among members of networks, [which is] often an indicator of closeness of *guanxi*'. Third, *guanxi* is transferable. As Luo (2000: 10) explains, 'if A has *guanxi* with B and B is a friend of C, then B can introduce or recommend A to C or vice versa'; during this process, B functions as a middleman. Fourth, *guanxi* practice follows an invisible and unwritten code of reciprocity and equity (Yan 1996b).

It is commonly believed that *guanxi* cannot be established without a pre-existing *guanxi* base (relationship). As Jacobs (1979: 242) states, 'the existence or non-existence of a *guanxi* base determines the existence or non-existence of a *guanxi*'. Tsang (1998) points out that a *guanxi* base is composed of two types: blood relationship and social interconnection. The former includes 'family members, distant relatives, and even sharing the same surname', whereas the latter is created because of having gone to the same school, lived in the same community, worked for the same organization, or served in the same camp (Yi and Ellis 2000: 26). Furthermore, Fan (2002a: 547) divides social base (interconnection) into two types: relationship by nature and relationship acquired. The former includes 'locality (from the same town or province)', 'classmates or alumni', 'teacher-student', 'co-worker', 'neighbour', and 'in the same profession'. The latter includes 'acquaintance', 'intermediary', 'friend', and 'sworn brotherhood'.

However, the existence of a *guanxi* base (relationship) alone is not sufficient to establish strong *guanxi*, or produce (active) *guanxi* (Fan 2002a). Other factors or triggers are required to activate *guanxi*. For example, interacting, exchanging favours, building interpersonal trust, and working together over a period of time are necessary conditions for individuals to establish and maintain *guanxi* networks (Dunfee and Warren 2001). Moreover, Fan (2002a) argues that a *guanxi* can be developed between two strangers who do not have a *guanxi* base, which challenges the

conventional definition. Compared with the development of guanxi between two individuals with a guanxi base, this guanxi process without pre-existing relationships may be more difficult and time-consuming, but is not uncommon in contemporary China. In this case, a guanxi base (relationship) should be understood as a matter of fact, but guanxi is the result of using the guanxi base for a specific purpose (Fan 2002a).

### *Guanxi practice under the pre-reform system*

Mayfair Yang's book *Gifts, Favors, and Banquets* (1994) explores the significance of the guanxi network and guanxi practice in Communist China. She views guanxi as social relations, and regards guanxi practice as an institutional system offering an alternative path to the state-defined system (Yang 1994). Guthrie (1998: 256–57) summarizes Yang's work on the concept of guanxi practice: it refers to 'the use of these social relationships [or guanxi] to make exchanges, manufacture indebtedness, or accomplish tasks' rather than the use of formal bureaucratic processes and procedures.

Under the central planning system, Chinese society was characterized by both low occupational and low spatial mobility because of the creation of a number of institutional arrangements, such as the production team system, the working point system, the work unit system, and the *hukou* (household registration) system (Lin 2002). Consequently, the reach of personal networks was seriously constrained and social exchanges were only available within short spatial distance, 'making it possible and likely to intensify the social interaction among members of this small community' (Lin 2002: 63). Moreover, given the extreme scarcity of opportunities (e.g. employment and career development) and resources (e.g. scarce goods) that could not be supplied through alternative channels, a person would find it extremely difficult to survive without cultivating and maintaining guanxi with those who took charge of benefit and opportunity allocations, with those who could serve as an intermediary facilitating the help seeker to gaining access to the potential helper, and even with potential spoilers who could completely destroy one's career or end one's life by using reasons like 'removing capitalists', 'reacting to the reactionaries', and 'cleaning traditional elements' of the Communist Party of China (Lin 2002). In this case, 'there was a high degree of non-substitutability for a large part of one's guanxi networks' (Lin 2002: 64).

In a state of anarchy, Chinese people tend to employ guanxi networks to make their living and avoid political repressions. As Yang (1994) argues, the increasing importance of guanxi practice during the period of the Cultural Revolution (1966–1976) can be attributed to two factors. First, people had to rely on the use of personal relationships rather than state-sponsored frameworks to secure everyday survival when China's traditional social order was wholly destroyed by the Cultural Revolution. Guthrie (1998) discloses the details about what happened in that period and how people responded to those changes:

In the chaos of the Cultural Revolution, people faced the prospect of their children being sent down to remote areas of the countryside, the constant threat of denunciation, and, at the close of the Cultural Revolution, the prospect of trying to find jobs for the displaced youth as they returned to urban areas. Individuals relied on the exchange of gifts and favours among personal connections to find ways to deal with these social crises. (p. 257)

Second, in response to extreme politicization and red terror (mass campaigns of the Red Guards in China), practitioners of *guanxixue* (the art of guanxi), as Yang (1994: 158) points out, engaged in social exchanges according to the moral and social principles of reciprocity and obligation to 'protect themselves from state control and reduce their dependency on the state for material resources and social sustenance'.

### *Guanxi practice under economic reforms*

The market transition theory shows that a transition to markets in a socialist economy involves the decline of political power and connections in the post-socialist context and the establishment of markets with fully legitimated and well-defined private property rights (Cao and Nee 2000; Nee 1989, 1992; Szelenyi and Kostello 1996). Given institutional changes and socio-economic development brought by economic reforms, there is considerable disagreement among scholars over the effect and fate of guanxi in the reform period. A theory of the declining significance of guanxi suggested by Douglas Guthrie posits that the construction of rational-legal institutional mechanisms at the state level is the major force in the diminishing importance of guanxi practice (Guthrie 1998, 1999, 2002; Kennedy 2005; Kung 1999). The main arguments in

support of the declining significance of guanxi can be summarized as follows: on the one hand, the emerging legal structures that govern the practices and economic activities of industrial organizations make the practice of guanxi obsolete; on the other hand, economic and political actors in a competitive market environment focus more attention on the rise of quality and efficiency than on the norms of guanxi practice (Guthrie 1998). In parallel with Guthrie's viewpoint, Hanser (2002) examines the importance of guanxi in youth job searches in urban China. He concludes that the old system of centralized job allocation that placed significant reliance on guanxi has been largely dismantled by these economic and social changes in the reform era. As a result, most young urbanites are more likely to find jobs on their own rather than via the use of guanxi.

Peerenboom (2002a: 6) emphasizes the shortcomings of exclusive reliance on personal connections in China by arguing that: 'as the economy grows ... reliance on relationships rather than generally applicable laws and formal legal institutions becomes less effective'. As he explains, a greater number of transactions coupled with increased complexity make the guanxi network less useful for conveying information and less efficient for resolving disputes (Peerenboom 2002a). Moreover, the formal legal system possesses the ability not only to protect property rights and enforce contracts, but also to make it more difficult and risky for people who rely on guanxi practice to circumvent legal requirements (Peerenboom 2002a).

However, theoretical arguments for regarding the importance of guanxi as decreasing because of the creation of an appropriate legal structure and a market economy are challenged by many China theorists (Bian et al. 2005; Gold 1985; Hsing 1998; Ledeneva 2008; Michelson 2007; Yang 2002). Nee (1992) states that widespread uncertainties in changing institutional environments force individuals and enterprises to invest heavily in personal connections (guanxi). Based on two years of ethnographic field research in the private economy in Xiamen, Wank (1999, 2001) suggests that guanxi plays a significant role in the business decisions of private entrepreneurs, and emphasizes that particularistic identities and personal obligations are extremely important in an environment where courts are considered corrupt. Regarding the effect of guanxi on job assignment, Bian (1997: 366) suggests that personal networks in post-Mao China 'are used to influence authorities who in turn assign jobs as favours to their contacts, which is a type



of unauthorized activity facilitated by strong ties characterized by trust and obligation.'

In responding to Guthrie's arguments on the declining significance of guanxi, Yang (2002) insists, again from an ethnographic perspective, on the enduring importance of guanxi in Chinese society, and demonstrates that old contexts of guanxi usage—the acquisition of consumer goods and provision of everyday needs—decline, but new ones emerge. Yang (2002: 463) further indicates that 'guanxi now flourishes in the realm of business and the urban-industrial sphere, whether in dealings among private entrepreneurs, between private entrepreneurs and state managers, or between entrepreneurs and officials, especially local officials'.

Furthermore, a rapidly increasing phenomenon in the reform period is the conflation of guanxi with corruption and bribery (Yang 2002). For example, Zhan (2012) examines the corruption-facilitating roles of the guanxi network. She explores how transactional corruption through particularistic ties was realized through the three functions of the guanxi network: communication, exchange, and normative functions. Li (2011b) investigates guanxi-practice functions as 'alternative operating mechanisms' in the process of initiating corrupt transactions between the bribers and the bribed. As Li (2011b: 20) argues, the participants in corruption adopt 'guanxi-practice as an enabling operating mechanism' to overcome the legal, moral, and cognitive barriers.

As mentioned above, it is rational to view guanxi as 'an institutionally-defined system' rather than 'a deep-seated cultural fact of Chinese society' (Guthrie 1998: 255). The implementation of economic policies by the Chinese central government has resulted in immense changes in Chinese society, including the change of guanxi practice. A theory of the declining significance of guanxi fails to predict the fate of guanxi during the post-reform period, thus it is problematized by a lot of China scholars. This book agrees with Yang's (2002) argument that guanxi loses its importance in traditional areas of the acquisition of consumer goods and provision of everyday needs, but guanxi now flourishes in new sites: the realm of business, the urban-industrial sphere, and corrupt exchange. The resilience of guanxi and the creation of a rational-legal structure stimulate research into how these two systems coexist in contemporary China. Moreover, as China's legal framework and markets change continuously and quickly, it is important to examine how guanxi works in Chinese society after the 1978 economic reform.

## Guanxi and the Legal System: Coexistence and Conflicts

In order to explore whether the juxtaposition of these two systems produces a positive outcome, it is necessary for scholars to focus on the interactions between these two sets of institutions. Based on a theory of formal–informal institutional interaction, this part explores how the institutions substitute, complement, or undermine each other (Brinks 2003; Chavance 2008; Helmke and Levitsky 2004).

Helmke and Levitsky (2004: 728) develop a typology of four patterns of formal–informal institutional interaction: ‘complementary’, ‘accommodating’, ‘competing’, and ‘substitutive’. They define informal institutions as ‘socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels’, while formal institutions are regarded as ‘rules and procedures that are created, communicated, and enforced through channels widely accepted as official’, for example, state institutions (courts, legislatures, bureaucracies) and state-enforced rules (constitutions, laws, regulations) (Helmke and Levitsky 2004: 727). Where the informal rule leads to a substantively similar result from that ‘expected from a strict and exclusive adherence to formal rules’, the formal–informal institutional relationship is either substitutive or complementary (Helmke and Levitsky 2004: 728). Where the two outcomes are substantively different, the formal–informal institutional relationship is either competing or accommodating (Helmke and Levitsky 2004).

In examining the interactions between formal and informal institutions, existing typologies have assumed that an effective legal framework has been established (Helmke and Levitsky 2006). However, such typologies in transitional settings are less helpful (Grzymala-Busse 2010). Formal institutions in transitional settings are characterized by instability since ‘these are constantly being abolished, transformed, and established anew’ (Grzymala-Busse 2010: 313). Therefore, the best laid plan of examining formal–informal institutional interactions in transitional regimes focuses on the influence of informal rules on formal institutions. Regarding the co-existence of guanxi and the formal legal system, it is logical to focus on the impact of guanxi on the functioning of formal rules in post-Mao China where legal institutions are in a state of flux.

Drawing on Helmke and Levitsky's (2004, 2006) study of informal institutions and comparative politics, the relationship between guanxi and formal institutions is either substitutive or complementary, since guanxi practice produces outcomes compatible with formal rules. Similarly, a series of publications from China scholars also view the Chinese guanxi network as informal institution that substitute or compensate for legal institutions (Potter 2002; Xin and Pearce 1996; Zhang and Keh 2009). However, arguments about guanxi and the formal legal system functioning as substitutes or complements ignore the fact that guanxi, to a large extent, distorts China's legal framework.

This section includes four parts. The first two parts emphasize that China's economic development and legal reform create a virtuous circle of efficient and mutually supportive co-existence between guanxi and the legal framework. It bases itself on the existing literature on guanxi, and interprets the substitutive and complementary relationship between guanxi and a formal legal system. By contrast, the third and fourth parts challenge the popular viewpoint on the juxtaposition of these two systems, and suggest that guanxi networks are on a collision course with the formal legal institutions. It emphasizes the 'symbiotic' or 'parasitic' relationship between guanxi practice and corruption, and argues that guanxi practice distorts or subverts the Chinese legal system.

### *Guanxi as a substitutive informal institution*

Informal institutions can replace formal institutions in environments where formal rules are not routinely enforced and fail to protect its citizens (Grzymala-Busse 2010; Helmke and Levitsky 2006). In this case, 'substitutive informal institutions achieve what formal institutions were designed, but failed, to achieve' (Helmke and Levitsky 2004: 729). Xin and Pearce (1996) emphasize the rule of connections (guanxi) as 'structural support' which is highly valued by enterprise managers. China's transitional economy is characterized by ill-defined property rights, a weak market structure, institutional uncertainty, and incomplete institutional foundation (Nee 1992, 2000). This was especially true in the 1980s and 1990s, but still holds true today. Under such circumstances Chinese private companies have difficulty gaining access to state resources and getting capital. Furthermore, in a country with poorly-specified property rights, private firms are subject to threatening

interference and arbitrary extortion by party and governmental officials since society lacks a reliable rule of law (Peng 2003; Xin and Pearce 1996).

Luo (2007) suggests that enterprise managers perceive the court system in China as weak due to two major sources: first, less-developed areas are generally characterized by insufficient legal protection, weaker law enforcement, and poorer legal services, in which the judicial system and the local governments suffer more from corruption than do others. Second, interpersonal or inter-organizational connections with government authorities and local judiciary play a pivotal role in China; thus managers with fewer political connections or ties will perceive poor legal enforceability.

When managers perceive that the legal system is not trustworthy and cannot protect their interests, they are more likely to rely on 'relational reliability' (guanxi) to safeguard transactions (Zhou and Poppo 2010). Depending on interviews with executives from three types of Chinese organizations—state-owned, privately owned, and collective-hybrid companies—Xin and Pearce (1996: 1644) find that 'guanxi is more important to managers with great need for a substitute for formal structural support'. Guanxi as a substitute for formal institutional support facilitates executives, especially those from private companies, to counteract liabilities caused by their organizations' youth and smallness, to get access to state resources, and to defend themselves against threats (e.g. appropriation and extortion) from governmental officials (Xin and Pearce 1996).

In parallel with Xin and Pearce's argument, Park and Luo (2001) posit that guanxi has significant effects on company performance in China. In a transitional economy with ambiguous property rights and weak competition policies, 'Chinese firms develop guanxi as a strategic mechanism to overcome competitive and resource disadvantages by cooperating and exchanging favors with competitive forces and government authorities' (Park and Luo 2001: 455).

In regions where the legal system is experienced as untrustworthy or unpredictable, guanxi networks are frequently adopted by individuals and enterprises to safeguard market exchanges characterized by non-trivial hazards, including environmental uncertainty, behavioural uncertainty, and asset specificity (Zhou and Poppo 2010). The transaction cost theory indicates how guanxi-based exchange deals with these governance problems (Standifird and Marshall 2000).

Firstly, the guanxi network facilitates the transfer of knowledge, which can largely reduce transaction costs caused by environmental uncertainties (Standifird and Marshall 2000: 30). The broad information concerning potential exchange partners provided by guanxi networks addresses the governance problem of adaptation. This is because guanxi can reduce costs relating to screening and selecting partners, and reduce expenses derived from ‘communicating, negotiating and coordinating transactions, as well as maladaptation and/or a failure to adopt’ (Standifird and Marshall 2000: 31).

Secondly, guanxi possesses the capability to reduce transaction costs related to behavioural uncertainties, as Standifird and Marshall (2000: 31) argue, ‘a failure to uphold obligations is destructive to all members because of the interlocked nature of a guanxi network’. Moreover, opportunistic behaviour is less prevalent in the guanxi network that is well developed. As Strandifird and Marshall explain:

Opportunistic behaviour with one exchange partner can be easily interpreted as opportunistic behaviour with the entire network ... in a guanxi network, the cost of opportunism is the potential loss of exchange opportunities with all members of the guanxi network. (p. 32)

Last but not least, a well-developed guanxi network in China can efficiently reduce opportunism associated with asset specificity (Artz and Brush 2000; Standifird and Marshall 2000). As Standifird and Marshall (2000: 27) explain, governance problem arises ‘when a decision-maker deploys specific assets to an exchange and fears its partner may opportunistically exploit these investments’. When the guanxi network is well developed, the threat of opportunistic behaviour within guanxi-based exchanges is significantly reduced (Standifird and Marshall 2000). The decreasing threat of opportunism comes from two sources: first, exchange partner is reluctant to sacrifice the initial investments or sunk costs that are used to establish initial relationship when he enters into a guanxi network; second, it seems impossible to re-enter a guanxi relationship that has been severed (Yau 1988).

In the reform era, guanxi and the legal system are working together to manage changing social and economic conditions. The interactional relationship between guanxi and the legal system continues to evolve as the rule of law and legal institutions become more important in response to changing conditions. As Potter

(2002: 183) argues, the role of guanxi in the course of China's ongoing legal reforms and economic development 'may increasingly be seen to operate as a complement to rather than a substitute for the role of formal institutions'.

### *Guanxi as a complementary informal institution*

In recent years, scholars show their intense interests in comparing guanxi networks with the codified law system. 'The information structure' identified by Li (2003) is one important factor in distinguishing guanxi-based governance from rule-based governance. Guanxi-based governance largely relies on 'club information' only available to individuals from the guanxi network, while rule-based governance largely relies on publicly verifiable information (Li 2003). Schramm and Taube (2003a) regard transaction security provided by guanxi networks as a club good, while viewing transaction security provided by the legal system as a public good. They further state that the guanxi network is characterized by high initial investment or sunk costs (in order to be a member of the club) and marginal transaction costs relating to searching transaction partners. While there are no fixed costs in a codified legal system, the costs of enforcement are high if the judiciary is not sufficiently independent or effective (Schramm and Taube 2003b).

The limitations of guanxi-based governance have become obvious since China gradually strengthened its legal framework and its socialist market has dramatically expanded. Firstly, the guanxi network has to increase its size in order to meet the increasing demand from its members. When the guanxi network exceeds its optimal size, the ability to sanction misbehaviour is challenged and the costs of informing club members of the trustworthiness of all others increase (Schramm and Taube 2003a). Secondly, as the market expands and the number of business partners increases, the costs of screening and testing a new partner also increase and switching to a new partner becomes riskier (Li 2003). However, transaction security offered by an institutional legal system can effectively deal with this problem (Buchanan 1965). In a well-established legal system, 'the marginal costs of enforcing an (additional) contract between an (additional) transaction pair are negligible due to the fact that the contract is explicit, impersonal, and standardized, and that the police are on standby' (Li 2003: 657). As a result, when the average cost of a guanxi-based system surpasses the average cost of a

codified and institutional legal system in the process of market development and judicial reform, the guanxi network will not be able to compete with the formal legal institutions (Li 2003; Schramm and Taube 2003a).

Similarly, the theory of institutional interactions indicates that 'as markets develop, formal institutions based on law and contracts should supplant a traditional reliance on informal mechanisms, such as personal relationships or trust' (Poppo and Zenger 2002; Zhou and Poppo 2010: 864). This theory further demonstrates that complementary informal institutions 'fill the gaps either by addressing contingencies not dealt with in the formal rules or by facilitating the pursuit of individual goals within the formal institutional framework' (Helmke and Levitsky 2004: 728). In order to present a clear understanding of the increasing role of China's formal legal system and the changing interactional relationship between guanxi and the legal framework, it is worth offering a general description of Potter's (2002) study of the changing attitude towards the legal system in the 1990s as well as Zhang and Keh's (2009) study of how organizations, in the new century, rely more on the rule of law and legal institutions than the guanxi network to secure their transactions.

Potter (2002) examines the complementary relationship between guanxi and formal legal institutions through three case studies: 'attitudes about guanxi in domestic legal relations'; 'guanxi and foreign-related dispute resolution'; and 'guanxi and judicial behaviour'. The first case study focuses on how private entrepreneurs responded to the enforcement of loan agreements in 1994. It suggests that judicial action would be sought only after the respondent failed to persuade the debtor to perform by using relational dynamics, which shows 'growing acceptance of formal law requirements on formation and enforcement' (Potter 2002: 184). The second case study of the rule of guanxi in resolving foreign-related disputes suggests 'the increased willingness of Chinese parties to turn disputes over to lawyers and other professionals' (Potter 2002: 188). The third case study concentrates on the emerging complementarity between guanxi and the legal framework in the judicial behaviour of lawyers and legal officials. Potter (2002) states that there is increased recognition among law makers and high-ranking governmental officials of the need to provide clear formal rules governing the behaviour of lawyers and legal officials and the need to protect judicial decision-making mechanisms from the demands of guanxi networks. In his

conclusion, Potter (2002: 195) points out that although the role of guanxi is limited by the rule of law and China's legal institutions, legal reforms remain incomplete and the traditional Chinese practice of guanxi still 'plays an essential role in providing predictability to legal actors'. In this case, the complementary relationship between China's socialist legal system and guanxi will continue its existence in the foreseeable future.

Based on institutional theory, resource dependence theory, agency theory, and evolutionary theory, Zhang and Keh (2009) analyse how organizations in China—state-owned, privately-owned, and foreign-invested enterprises—choose governance mechanisms in terms of formal contracts and informal guanxi, and predict the evolution of governance mechanisms with institutional change. By studying interactions between different organizational forms and between institutions and organizations in the late 2000s, Zhang and Keh's (2009) viewpoint contradicts the popular perception of the significance of guanxi in managing inter-organizational relations (Park and Luo 2001; Xin and Pearce 1996). As Zhang and Keh (2009: 143) state:

Guanxi remains a potent governance mechanism. With the exception of FIEs [foreign invested enterprises] that largely favour contractual governance, guanxi is still prevalent among SOEs [state-owned enterprises], POEs [privately-owned enterprises], and HKMTEs [Hong Kong, Macau, and Taiwan-invested enterprises] ... but forces [like institutional change, market competition, and the risk and disruptive result of guanxi utilization] are driving inter-organizational governance mechanisms toward more formal means.

Intuitively, it seems right to argue that institutional changes, market competition, and the limitations of guanxi-based governance will result in a rapid and complete replacement of guanxi by the formal legal system in the foreseeable future. It is not, however, true. Firstly, a high initial investment in social capital for a membership in the guanxi network brings an inherent incentive for an economic actor to maximize possible transactions. As Schramm and Taube (2003a) argue, the individual economic actor will persist in using a once-established system of order (i.e. the guanxi network) until the costs of maintaining the existing system surpass markedly the costs of using the Chinese legal system. Secondly, guanxi as the major cultural feature of China is embedded, and remains embedded, in every aspect of Chinese social life (Yan 1996a); thus economic efficiency considerations are far from enough to predict the reduction of the



importance of guanxi networks. Most importantly, it is still not clear whether the performance of China's legal system is superior to the guanxi network or that it will be in the foreseeable future. It has been widely acknowledged that China's legal reforms have failed to resolve many problems, including corruption (Manion 2004; Sun 2004; Wedeman 2012a), the lack of judicial independence (Balme 2009; Henderson 2009; Peerenboom 2009), the gap between the law in the book and the law in action (Li 2012), and the unequal protection between public property rights and private property rights (Zhang 2008c). Consequently, guanxi networks cannot be rapidly replaced by the legal system and the complementary relationship between these two systems will continue to exist for a long time.

Guanxi in the reform era fills the gaps created by China's imperfect legal framework. The co-existence of these two systems of order brings great benefits to Chinese society since it provides two distinctive and complementary systems of protection and enforcement. The guanxi network will continue to play a vital role, for instance, fulfilling 'protection deficits' caused by the formal legal structure and facilitating the pursuit of individual goals within the legal framework. This might imply that the long-time coexistence between guanxi and the formal legal framework could guarantee that economic actors receive sufficient support, allowing China to smoothly continue its reformation of the economy and judiciary. However, the following parts offer a very different picture. They posit that the juxtaposition of guanxi-based governance and rule-based governance produces fewer positive outcomes. Corrupt transactions are increasingly embedded in guanxi networks and China's legal system fails to protect public officials from the demands of guanxi networks. The resilience of guanxi networks undermines and distorts the legal framework, making China's judicial system problematic. As a result, individuals distrust the judicial system, perceiving the judiciary as corrupt, unequal, and inefficient.

### *The embeddedness of corruption in guanxi networks*

Guanxi, as an informal institution, starts off by substituting and complementing formal rules, but it eventually subverts new formal institutions. A theory of institutional interaction suggests that informal institutions, in some circumstances, undermine and contravene the newly-formed or existing formal institutions (Böröcz

2000; Grzymala-Busse 2010; Lauth 2000). The negative impact of the guanxi network on formal institutions is derived from the increasing intertwinement between guanxi practice and corruption (Luo 2008).

The establishment of an institutional framework that is superior in terms of its ability to supply legal security at a supra-individual level may largely reduce the demand for guanxi transactions (Schramm and Taube 2004). Furthermore, if the rule of law and legal institutions 'provide officials with legitimate justification for denying requests for favouritism based on guanxi ties [and protecting] officials from the demand of guanxi networks' (Potter 2002: 188–89), the corrosive effect of guanxi can be reduced to the lowest level. The Chinese government, however, has failed to reduce the negative influence of guanxi on its formal legal system. This is because corrupt activities are highly embedded in the guanxi network. The rest of this chapter primarily focuses on two ways in which guanxi weakens formal institutions. First, it discusses the embeddedness of corruption in guanxi networks; second, it explores corruption in the judicial system by examining whether China's judicial reform succeeds in preventing judicial decision-making mechanisms from subversion by guanxi networks.

Corruption is generally understood as the abuse of public office for private gains. Drawing from a critical review of recent literature on Chinese corruption, Ko and Weng (2011: 374) suggest a tentative definition of Chinese corruption: 'publicly unacceptable misbehavior committed by state functionaries for private gains at the expense of public interests, and/or causing intentional and unintentional damage to public interests and values'. The phenomenon of Chinese corruption can be interpreted as the juxtaposition of guanxi and the legal system with differing functional principles and values (Schramm and Taube 2003a). From the perspective of guanxi-based governance, the provision of certain goods and the implementation of transactions (between money and power) among club members are normal or even necessary within the guanxi network, whereas these interpersonal activities may fall within the sphere of corruption when they are assessed from a legal perspective (Goudie and Stasavage 1998; Schramm and Taube 2004; Yu 2008b).

It is commonly accepted that transaction costs are much higher in illegal and corrupt activities when compared with transactions in ordinary markets (della Porta and Vannucci 2005). There are

several reasons for this. First, in order to avoid being discovered and arrested by control agencies (such as the judiciary and the police), the operating environment in which corrupt transactions are implemented is characterized by a high degree of secrecy, lack of transparency, limited participation, and a high withdrawal costs (Lambsdorff 2002). Secondly, transaction costs increase as more effort is required to search for a proper counterpart and gather sufficient information to 'evaluate the quality and adequacy of each of their products as well as their individual capacity and willingness to comply with corrupt contracts' (Lambsdorff 2002: 222).

Corruption agreements are also subject to a high risk of being cheated by the counterpart. This is caused by two main factors: on the one hand, 'corrupt transactions are often non-simultaneous in nature, and one party must rely upon the word of the other' (della Porta and Vannucci 2005: 153); on the other hand, corrupt transactions operate clandestinely and cannot be enforced by formal institutions (della Porta and Vannucci 2005; Lambsdorff 2002).

In China, the guanxi network has always been regarded as an efficient mechanism for solving the problems frequently encountered during corrupt transactions. As Schramm and Taube (2003a) state, guanxi-based governance provides a 'transaction-cost-minimising' solution for sustaining the enforcement of corrupt transactions. Similarly, della Porta and Vannucci (2012: 34) show that relation-based enforcement mechanisms can effectively fulfil 'the demand for protection of the fragile and uncertain property at stake in the corruption domain'. Most recently, Zhan (2012) focuses on the corruption-facilitating role of the guanxi network, for instance, the role of guanxi (practice) in dealing with an ineffective flow of information and managing environments with high uncertainty. The communication, exchange, and normative functions of the guanxi network, suggested by Zhan (2012), provide a clear understanding about why political and economic actors tend to choose guanxi networks as a preferred mode of governance securing their corrupt transactions.

First, the guanxi network functions as a significant transmitter of information, facilitating transactional corruption (Zhan 2012). The partners of a corrupt agreement, as Zhan argues, can rely on information supplied by the guanxi network to identify the seller or buyer of corrupt benefits rather than resorting to public channels. This guarantees the secret nature of the corrupt exchange. Zhan further suggests that the guanxi network possesses the capability

to lower the risks of corrupt transaction for two reasons. On the one hand, in order to maintain a good reputation that is fundamentally important for every member in the club, the guanxi network prevents either side of the transaction from reneging after the other side has made the payment. On the other hand, it reduces the risk of being punished by the Chinese legal system as mutual trust within the network prevents the disclosure of information relating to bribery and corruption. Another important issue pointed out by Zhan is that the guanxi network is able to provide a convenient and private channel of information dissemination because the guanxi network is non-transparent. Similarly, Li (2003) observes that the guanxi network largely relies on 'non-(publicly) verifiable private information, and each party may have incentives to hide his partner's private information in order to prevent potential competitors from stealing the relation or to cover up bad outcomes to capture the information rent' (p. 661).

The exchange function, emphasized by Zhan (2012: 102), is 'the second and perhaps the most direct corruption-facilitating effect of [the] guanxi network'. The guanxi network offers a non-public mechanism of distributing corrupt benefits between their holders and receivers. When formal institutions fail to 'clearly specify criteria for the distribution and to strictly enforce the criteria' (Zhan 2012: 2013), government officials make use of the guanxi network to manoeuvre their power to personal benefit, including money, expensive gifts, sex, and even promotion (Wang 2012b). The guanxi network facilitates the distribution of valuable resources and opportunities from officials to those who have established connections with them. As Zhan (2012) demonstrates, corrupt exchanges within guanxi networks are difficult to monitor, detect, or expose, for two reasons. The first one is that 'exchanges through guanxi networks are exclusive to people in the network' (Zhan 2012: 102), and the dispenser of corrupt benefits normally allocates scarce resources and distributes opportunities (i.e. career mobility) with the help seekers who possess the strongest particularistic ties with the dispenser. This is a departure from market transactions that are based on price competition. The second reason is that a corrupt exchange within a guanxi network is characterized by implicitness and a relatively long time horizon, making it extremely difficult for outsiders to detect.

The third function of guanxi networks, pointed out by Zhan (2012), is reducing the moral costs of corruption. Political

culture and moral attitudes among citizens and public officials have direct and indirect influences on the moral costs of corruption (Andvig and Moene 1990). The ‘normative’ function of the guanxi network, emphasized by Zhan (2012), reduces the moral cost of corruption, resulting in rampant corruption in contemporary China. People’s behaviour in a society with strong interpersonal relations is largely circumscribed by ‘the social norm of guanxi such as maintaining a long-term relationship, mutual commitment, loyalty, and obligation’, while they may care less about general social norms and formal rules (Chen and Chen 2004: 306).

Zhan (2012) indicates several normative elements of guanxi that encourage public officials to engage in corruption. First, the principle of reciprocity not only protects corrupt transactions, but also makes corrupt exchanges through guanxi networks attractive. To be specific, given that corrupt exchange is illegal, ‘victims’ of corrupt transactions cannot be protected by the judicial system, whereas the guanxi network can sufficiently protect both parties involved in the exchange as ‘the fear [of] sanctions from other members of the network can significantly discourage dishonesty and defection’ (Zhan 2012: 104). Moreover, bribers within the guanxi network can normally obtain what they want at a lower price, making corruption attractive for companies, individuals, and public servants. This is different from market transactions where the price of a commodity is high when there are a large number of competitors. Second, the norm of gift giving legitimizes bribery to a certain degree (Zhan 2012). Gift giving, as a prevalent social custom in China, is fundamental to establish and maintain a network of personal relationships (guanxi). As Steidlmeier (1999) argues,

Practices of gift giving in China include visual behavioral patterns (organizational artifacts), which are enshrined in rites (*li*) of proper conduct. Such rites themselves are rooted in normative and prescriptive canons of righteousness (*yi*) and benevolence (*ren*), which express why such actions are culturally meaningful or logical. (p. 121)

The Chinese traditional holidays such as the Mid-August Festival and the Spring Festival, and important family functions such as birthday parties, weddings, and funerals, are regarded as ideal opportunities for seekers of corrupt benefits to present gifts (Wang 2013b; Zhan 2012). Under such circumstances the officials feel obliged to accept these gifts filled with love and care. After accepting these gifts, the officials have to follow the principle of reciprocity

that is also regarded as a type of moral action. Third, the guanxi network can distort the moral judgement that is used to decide whether a certain action is good or bad, right or wrong (Steidlmeier 1999). Zhan (2012) indicates how the norm-distorting effect of guanxi network functions:

A common theme of the repentances is that these convicted officials started off very clean when first entering a new working environment; but after repeatedly witnessing the corrupt activities of their colleagues and friends, they eventually succumbed to the corrupt environment and went down the same path, partly because if they did not do so, they would face enormous difficulty in earning the trust and cooperation of the peers and carrying out their own work. (p. 105)

The corruption-facilitating function of guanxi stimulates more people to engage in guanxi-based corruption in order to get the thing done, which greatly undermines legal institutions. Wedeman (2012a) states that, as Chinese economic reform deepened, the mode of corruption shifted from non-transactional corruption such as the embezzlement of state funds and the theft of state property to various forms of transactional corruption that can be done through market mechanisms or particularistic relationships. Moreover, Luo (2008) demonstrates that guanxi and corruption are highly intertwined in contemporary China. He further indicates that guanxi provides ‘a fertile soil in China for corruption to flourish’, and that legitimate businessmen may be forced to develop what Luo refers to as corrupt guanxi networks and engage in corruption because guanxi is the source of sustained competitive advantage (Luo 2008: 192).

To sum up, the coexistence of guanxi and the formal legal system makes the state unable to protect public officials from the demands of guanxi networks, leading to rampant corruption in the public sector. In order to examine whether China’s judicial system is sufficient to protect the rights of all citizens against infringement, it is necessary to investigate the influence of guanxi on the functioning of the judicial system.

### *The effects of guanxi on judicial corruption*

‘Is the Chinese judicial system corrupt?’ is the primary question this part aims to explore. Generally speaking, the reduction of judicial corruption in China is determined by three main aspects. First,

decreases in judicial corruption depend on the extent to which China's laws are able to efficiently regulate the gift exchanges between judges and private actors in guanxi networks. Second, decreases in judicial corruption will depend on the establishment of a judicial system, especially the decision-making mechanism, which can protect judges from the demands of guanxi networks. Third, judicial corruption will only decrease if China's judicial system can prevent the informal linkages between judges and politicians that jeopardize judicial independence.

Millington et al. (2005) argue that 'gift giving appears to be associated with illicit payments, corruption and the pursuit of self-interest in a society where traditional structures are breaking down and new institutional structures are in transition' (p. 265). Laws and regulations that can regulate the gift exchanges between judges and private actors are profoundly important. Legal institutions that attempt to control corruption in the judiciary should be able to make a distinction between two types of guanxi: *quanli* guanxi and *qinyou* guanxi. As Su and Littlefield (2001) suggest, gift exchanges within *qinyou* guanxi networks ('kith and kin relationships emphasizing favour-seeking') are permissible by law, while gift exchanges within *quanli* guanxi networks ('power-dependence relationships emphasizing rent-seeking') should be strictly prohibited (p. 203). However, laws regulating this kind of corrupt exchange are absent or barely enforced, and in practice it is extremely difficult for anti-corruption agencies to distinguish corrupt exchanges within *quanli* guanxi networks from gift giving within *qinyou* guanxi networks (Su and Littlefield 2001; Zhan 2012).

Regarding whether China's judicial system possesses the capability to protect China's courts from the demands of guanxi networks, a series of publications authored by Li (2009b, 2011b, 2012) expose the evolution of corruption in China's court system. The Chinese Communist Party introduced an informal decision-making mechanism to China's courts when the party re-established the judicial system in the 1980s (Li 2009b). Courts were divided into civil, criminal, or commercial divisions, and 'each court division was mandated to complete the entire process from case registration, court hearing, panel adjudication, and issuance of verdict to enforcement of the judgement' (Li 2009b: 206). Judicial corruption rose dramatically in that period because the greater the concentration of power in the hands of judges, the greater the corruption in the judiciary.

In the 1990s, the Supreme People's Court launched an institutional reform to transform the informal decisional mechanism into a formal and efficient decision-making system (Li 2012). The judicial reforms saw a complete restructuring of China's court system by dividing the system according to process: 'one division was charged with case admission and registration, another division with adjudication (further divided according to the nature of the case), and yet another division with enforcement' (Li 2012: 18). Meanwhile, a new separate division—adjudication supervision—was established to vindicate individual rights and 'give individual litigants a check on abusive judicial work' (Woo 1991: 108).

Under the reform, the corruption-facilitating functions of *guanxi* are weakened. A division of power means a private actor who attempts to obtain corrupt benefits has to engage in a number of corrupt exchanges with different judges who perform different functional judicial power, which results in a great increase in the transactional corruption costs (Li 2011b). Moreover, the added number of corrupt transactions increases the risk of being detected by anti-corruption agencies. This means that litigants and other court users feel reluctant to develop corrupt *guanxi* when they realize that corruption has become so complicated, expensive, and risky. As a result, a fairer justice system is achieved.

However, Li's (2012) latest research suggests a different story: 'all these newly established divisions are subject to the same decision-making mechanism, they are as susceptible to corruption as the antecedent institutions' (p. 18). China's judicial reforms fail to establish a formal and efficient decision-making mechanism in the court system and, what is even worse, institutional changes institutionalize corruption in the judiciary. According to Li (2012), a decision-making mechanism in judicial institutions generally proceeds as follows. After the case is registered, it is assigned to the appropriate adjudication division. The subordinates (frontline judges) collect information and pass it to their superiors (leader judges), then the superiors 'instruct their subordinates about their preferences for the outcome of the litigation concerned, with or without considering the information provided' (Li 2012: 24). The subordinates are obligated to implement instructions from their superiors. China's current court system is characterized by unconditional compliance and the lack of judicial reasoning, making subordinates unable to question the legitimacy of the instruction. Moreover, the subordinates perceive the instructions from leader judges as a primary



source of legitimacy for the formal court actions. Frontline judges are in a dilemma: although they are legally responsible for the legitimacy of their actions, ‘effective implementation [of their superiors’ instructions sometimes] requires violation of procedural rules and/or misapplication of the law’ (Li 2012: 10).

Even though China’s judicial reforms have empowered frontline judges, this does not reduce judicial corruption because leader judges (panel leaders) still monopolize the decision-making (Li 2012). The authoritarian political culture emphasizing unconditional compliance is still prevalent in China’s court system. As a result, frontline judges show greater loyalty to their superior’s instruments than the law (Hiniker 1969; Xuan 2006). In this case, ‘the law can be easily distorted by decision makers in the process of judicial decision making, [and] the law cannot effectively deter those who make these decisions from behaving corruptly’ (Li 2012: 23). Under such circumstances, guanxi practice still retains its important role in corrupt exchanges between bribers and judges who possess the decision-making power, and, more importantly, corrupt judges tend to form a corrupt guanxi network—a self-defence mechanism—against potential dangers exposed by anti-corruption investigations (Li 2011b). As a result of institutional restructuring, collusive corruption becomes more prevalent in the judiciary, the distribution of profits within the corrupt guanxi network becomes more secure, and the links between corruption and guanxi networks become even more close-knit.

Moreover, the judiciary in China fails to separate itself from a strong link with party leaders (Balme 2009). The court in China, as a work unit, is ‘an institution that socially, politically, and culturally binds judges collectively to the CCP [Chinese Communist Party], the state, and the people’ (Balme 2009: 156). The government influences or affects the judiciary in three main ways: first, courts are funded by the same level of government (Fu and Peerenboom 2010; He 2009c); second, local judges are ‘elected, appointed, and removed by local people’s congresses’ (Balme 2009: 162); third, a large majority of judges are members of the ruling party (Henderson 2009).

Although party leaders are not judges, they can ultimately decide their cases without court hearing. The Chinese Constitution (2004) demonstrates that party leaders have exclusive power to supervise the decision-making process in the court system. The court adjudicative committee, consisting of a small group of party leaders, is

the highest decision-making body on adjudicative affairs in court (Balme 2009; Li 2012). Party leaders in the decision-making body of the court exercise their power mostly ‘through giving instructions to their subordinates, including court leaders, in regular or ad hoc meetings or in private conversations with or without written decrees’ (Li 2012: 8).

The establishment of this particular judicial decision-making mechanism in China’s courts guarantees that the Chinese Communist Party is placed above the law, enabling the ruling party to ‘process its political directives and specific demands in an institutionalized manner through the judicial system nationwide whenever necessary’ (Li 2012: 25). As a consequence, in order to avoid punishment from party leaders, a judge, to a large extent, works like ‘a bureaucratic clerk’ who obeys the orders and instructions of his superior rather than ‘the voice of reason and law’ (Zhang 2003: 83–84). This mechanism allows corrupt judges and political leaders to form a corrupt network in the Chinese judiciary.

To sum up, the coexistence of *guanxi* and the formal legal system produces few positive outcomes. This contradicts the popular perception that *guanxi* networks and the legal framework function as substitutes or complements. This section has emphasized the corrosive effects of *guanxi* network in Chinese society and analysed how *guanxi* practice undermines China’s formal institutions. The embeddedness of judicial activities into *guanxi* networks means that the judicial system is unable to provide equal and sufficient protection for private property owners. Despite the efforts of the Supreme People’s Court to launch an institutional reform in the 1990s, judicial reforms failed to create a formal and effective Chinese judicial system. This encouraged economic actors either to rely on *guanxi* practice to influence local court decision-making, or rely on *guanxi* networks to resolve disputes and protect private property rather than resorting to the judiciary.

Moreover, the judicial decision-making mechanism is designed to enable the ruling party to maintain its above-the-law status. But the same mechanism also facilitates court users to bribe judges, or party leaders who exercise the decision-making power in the judiciary, by using *guanxi* practice. In addition, the evolution of judicial corruption is directly paralleled by institutional changes in the court system. The prevalence of collusive corruption or the corrupt network in the judiciary make judicial corruption more difficult to monitor, detect, and expose.

## Conclusion

This chapter presents a theoretical analysis of the coexistence of the legal system and the guanxi network in contemporary China. Guanxi in the reform era has been transformed from a substitutive and complementary institution to an informal institution that encourages private individuals and government officials to achieve their goals regardless of the arm's length principle and the rule of law. The conflicts between the two systems make the formal legal system unable to provide equal, efficient, and sufficient public services to protect private property owners, contributing to the growing demand for extra-legal protection. First, the embeddedness of judicial activities within guanxi networks makes China's legal system weak and unjust. This encourages private individuals and entrepreneurs to seek alternative sources of protection and, as Chapter 4 shows, street gangs are increasingly involved in the provision of this protection.

Second, the formal legal system fails to prevent public officials from abusing power to meet the demands made on them by guanxi members. A key argument that the book sets out is that the negative impact of guanxi practice on the formal legal system results in the rise of collective corruption within the public sector. In order to make this argument stand, Chapter 5 aims to examine how public officials adopt guanxi practice to influence decision-making processes relating to promotion, and how businesspeople employ guanxi networks to achieve comparative advantages in market competition. Drawing on fieldwork data in China, Chapter 6 looks at why and how gang bosses create mutually-beneficial networks with public officials (especially law enforcers). Corrupt public officials, as the following chapters argue, have become an important type of extra-legal protectors—selling public appointments, distributing economic resources in unjust ways, and safeguarding the criminal underworld—in post-Mao China.

## 4

### The Black Mafia

The subversive influence of *guanxi* on China's legal system results in the failure of the state-sponsored institutions to fulfil the huge demand for protection generated by the widespread creation of private property rights and the increasing number of disputes. Weak law enforcement agencies, as Gambetta (1993) and Varese (2001) argue, inevitably lead to the emergence of other forms of protection and enforcement. The author's fieldwork in China reveals two particularly striking phenomena: the rise of underground police organizations and the emergence of unlawful hospital security teams. The supply of extra-legal protection and quasi law enforcement has become a profitable business for street gangsters and also constituted a major source of income for many unemployed people.

The term 'Black Mafia' used in this book refers to locally based criminal groups and unemployed groups which derive their income mainly from the provision of unlawful protection and quasi law enforcement. Fieldwork in China, especially in the city of Qufu, provides valuable materials to examine why such groups emerge and how extra-legal protection and quasi law enforcement services are produced and distributed.

The movement of street gangs into extra-legal protection businesses has become a serious problem in most Chinese cities. For example, sixty-four criminal groups which acted as underground police organizations providing illegal protection and dispute resolution services were destroyed during an anti-crime campaign in 2008 in Handan, a prefecture-level city located in Hebei province (Zhang 2008b). The biggest criminal group, headed by Li Falin, was invited to resolve a wide range of disputes, including neighbourhood disputes, commercial and contractual disputes, and land disputes between residents and local authorities. News reports show that the Li Falin group offered over 1,000 enforcement actions between 2002 and 2008 (Hou 2008; Zhang 2008a).

Street gangs are also invited by many local hospitals to deal with medical disputes. Disputes between hospitals and patients pose a great challenge to hospital security (Jin et al. 2006; Li et al. 2004). For example, on the morning of 23 August 2011, a full-scale melee broke out in the atrium of a hospital in the southern city of Nanchang between the hospital's in-house security team—consisting of hospital staff and gangsters—and the family members, friends, and neighbours of a patient who had died due to hospital negligence (Economist 2012; Shi 2011). During this violent incident, three cars were destroyed and fifteen people were injured. The increasing number of 'incidents' aiming at hospitals and their staff suggests that the trust relationship between doctors and patients has eroded (FlorCruz 2011). Legal channels, such as judicial dispute resolution, mediation, and negotiation, are available but prove inefficient in practice (Xiang et al. 2011). An internal security system consisting of illegal enforcers (gangsters and unemployed people) becomes an effective enforcement unit which avoids disrupting the normal running of the hospital.

This chapter firstly provides a general description of the rise of the extra-legal protection industry in contemporary China by applying the demand and supply theoretical framework. It then focuses on two widely publicized cases: underground police organizations (*dixia chujingdui*) and the provision of hospital security by unlawful protectors (*yi yuan neibao*). In order to offer a clear picture of how extra-legal protection groups work, it investigates their group structure, illegal activities and methodologies, and the mechanisms of their emergence. Furthermore, it explores how private individuals and entrepreneurs employ various types of protection and enforcement mechanisms to cope with government officials' extortion, solve the problem of being stalked, and enforce loan repayment. The case study illustrates the importance of *guanxi* networks in the buying and selling of protection. The final section discusses the theoretical challenges raised by the study of extra-legal protection to the traditional understanding of organized crime in China.

## The Demand and Supply of Extra-legal Protection

China's post-1978 economic reform has been recognized as essentially successful, but this process of economic transition is mirrored by the resurgence of organized crime groups (Xia 2006). Most scholars focus on the involvement of Chinese organized crime groups into 'traditional' businesses such as gambling (Hing

2005; Wang and Antonopoulos 2016), prostitution (Liu 2012a), cigarette smuggling (von Lampe et al. 2012), drug trafficking and distribution (Huang et al. 2012), human smuggling (Zhang and Chin 2002), and counterfeiting (Chow 2000). Some criminologists point out that a large proportion of locally based criminal groups have business fronts and engage in legitimate businesses, thus it is difficult to distinguish illegal conduct from legitimate business (He 2009a; Wang 2013b; Xia 2008).

The existing research, however, fails to present the whole picture of Chinese organized crime. Based on fieldwork data and news reports in recent years, the author finds that criminal groups in China are showing great interest in a new area: the business of private protection. This emerging phenomenon can be explained by using the theoretical framework, ‘the supply of and demand for private protection’, suggested by Gambetta (1993).

On the supply side is the increase of surplus labour in both rural and urban areas. The unexpected result of China’s economic reforms is the increasing marginalization and poverty of two new groups in the cities: peasant migrants and laid-off workers (Solinger 2006). China’s new agricultural policy—the household responsibility system—not only allows rural peasants to sell surplus production on the open market, but also enables peasants to free themselves from the land and move to urban areas to earn extra income (Lo and Jiang 2006; Ma 2001). The number of migrant peasant labourers increased dramatically from around one or two million at the beginning of China’s economic reform in 1978 to 236 million in 2012 (Zhang et al. 2015; Zheng 2008).

However, migrant peasants do not have equal access to employment. In 2011, the author had a personal interview with Zhou Litai, a famous lawyer fighting for the rights of migrant workers injured and mistreated by private enterprises. He categorized peasant migrants into four subgroups: 1) migrant workers providing labour for factories and construction sites; 2) peasant migrants as lawbreakers involved in a range of criminal activities such as robbery, theft, and fraud; 3) sex workers; and 4) casual labourers such as porters. Rural migrant workers encounter many problems: these are described by Li Shi as follows:

The majority of migrant workers face considerable insecurity in terms of employment, income, social protection, and access to education for their children. Their housing conditions are much worse than those of local urban residents, and even worse than those they would have experienced in their place of origin if they had not migrated. (Shi 2008: 22)

China's surplus labour also consists of mass layoffs caused by the privatization process. China's economic reform in urban areas focuses on the improvement of efficiency and profitability, resulting in millions of employees losing their jobs in state-owned enterprises, collective enterprises, and government and public service units (Chiu and Hung 2004; Li and Putterman 2008). From 1996 to 2004, over 50 million workers were laid off, about 80 per cent from the state sector (Dong and Xu 2008; Yang et al. 2010). The existence of a large number of laid-off workers and underpaid and underprivileged labourers from the countryside signals the emergence of a new urban underclass, which is a major challenge confronting the Communist Party (Solinger 2006).

These marginalized workers and peasants become new blood for criminal activities and tend to regard organized crime as a step-ladder of social ascent if opportunities arise (Deng and Cordilia 1999; Lo and Jiang 2006; Xia 2009). In weak states a situation may arise where some criminal groups not only seize criminal opportunities, but also enter into the business of private enforcement and provide basic security and protection against plunderers (Mehlum et al. 2002).

On the demand side, China's booming markets foster a demand for protection. The huge demand for private protection has arisen for a combination of reasons. On the one hand, two types of market operators—those who deal in illegal goods or services and those who deal illegally with legitimate goods—cannot resort to state-sponsored law enforcement when disputes arise, and thus benefit from 'governmental' services by non-state actors (Gambetta 2011). On the other hand, a modernizing nation's economic prosperity leads to a growing number of disputes among market operators, 'requiring at least a modest legal infrastructure centred on the protection of property and contract rights' (Posner 1998: 1). But the social embeddedness of judicial activities into *guanxi* networks, as Chapter 3 discusses, is an ongoing problem in China, a problem that greatly undermines public confidence in China's legal system.

The legal system lacks its ability to fulfil the increasing demand for protection, thus 'a demand for alternative sources of protection is expected to arise' (Varese 2004: 145). And meeting such a demand is more profitable in a weak state than elsewhere. Confronting social problems such as massive unemployment, economic inequality, relative deprivation, and impoverishment, marginalized groups have to adopt drastic measures in order to survive. In ancient

China, the most effective strategy for those displaced from their villages, as Chapter 2 suggests, was to create secret associations for self-protection (see also Murray 1993). In contemporary China, the formation of extra-legal protection groups has become an important method for the new urban underclass to survive. Criminal groups consisting of marginalized workers and peasants earn their living by taking advantage of the wide gap between the demand for protection of property and the relative inefficiencies of the state in supplying these services.

The shift of criminal groups to the private protection sector is the key aspect this chapter aims to explore. Two influential phenomena, underground police organizations and the provision of hospital security by unlawful protectors are examined in order to have a better understanding of how gangsters and marginalized people produce, sell, and distribute their security services.

## Underground Police Organizations

A new type of criminal group poses security threats to local communities and markets in most Chinese cities. It is known by many names: underground police organization (*dixia chujingdui*), underground police gang (*dixia chujing bang*), or underground police and emergency service unit (*dixia 110*) (Xu 2010). Recent news reports disclose that underground police organizations consisting of a large number of laid-off or unemployed workers are frequently invited by private individuals, enterprises, and even local governments to deal with problems that are alleged to be urgent, difficult, and risky (Cheng et al. 2009).

The main business of underground police organization is providing efficient and effective services such as dispute resolution and private enforcement (Guo and Liu 2010). Nevertheless, underground police organizations are deemed illegal by both central and local governments because the supply of private protection by underground police organizations is based on threats and violence.

Since 2008, a great number of underground police groups have been destroyed during anti-crime campaigns in several cities, such as Handan city in Hubei province, Changsha, the capital city of Hunan province, Pizhou city in Jiangsu province, Xi'an the capital city of Shaanxi province, and Fuzhou city in Fujian province. In this case, the extra-legal protection organization as a new type of criminal group merits further examination. This section explores



the social organization of Chinese extra-legal protection. To be specific, it describes and analyses the structural and operational features of underground police organizations.

### *Group structure*

Most organized crime groups in contemporary China and secret societies (e.g. the Green Gang) in ancient China are characterized by codes of loyalty and a pyramidal organizational structure (Chu 2000; He 2009a), while underground police organizations favour structural fluidity and flexibility. To be specific, an underground police organization is a powerful criminal network consisting of small groups connected through *guanxi* networks among gang leaders (Liang 2010). Each enforcement action involves at least one criminal group. A customer—private individual or entrepreneur—who is in trouble informs a gang leader or organizer of how many people he needs and how much he will pay. The gang leader will then spread the information about enforcement actions to his followers and other leaders if necessary. Taking advantage of new technologies such as mobile phones and *Tencent QQ* (a free instant messaging computer program in China), the information about ‘customer orders’ can reach everyone within several minutes (Yan and Sun 2005). An agreed number of gangsters arrive at the agreed place at the agreed time to carry out agreed action, and will leave the ‘battlefield’ immediately after the task is completed (Xinhua 2009b).

Organizers or gang leaders usually supervise the whole action without directly participating (Liang 2010). Those members who are involved in dispute resolution or private enforcement actions sometimes do not know each other as they may come from different cities or criminal groups; therefore a clear and uniform symbol (e.g. wearing a red wrist strap) is required to distinguish friends from enemies (Yan and Sun 2005). A flexible structure adopted by the underground police organization can increase its ability not only to seize the criminal opportunities generated within *guanxi* networks, but also to meet customers’ different needs and expectations.

An investigation conducted by the public security bureau of Shaanxi province reveals that most members involved in quasi law enforcement actions are young unemployed people aged between eighteen and twenty-five (Su 2009). A majority of them are peasant migrants who failed to find jobs in the city. Some underground police groups may also consist of ex-prisoners and gangsters

(Xinhua 2011b). In addition, students from sport universities and retired sportsmen are sometimes regarded as preferable enforcers since they enjoy comparative advantage in the use of violence (Yan and Sun 2005). Members in each group either come from the same birthplace (*tong xiang*) or used to work together (*tong shi*). It is also reported that some young people initially know each other via cyberspace (Xinhua 2011c).

### *Soft violence and illegal services*

In a departure from traditional mafias that establish their reputation through the use of violence, an underground police organization seldom resorts to physical violence in the process of supplying protection and enforcement (Liang 2010). Soft violence is a major and effective method adopted by these illegal protectors and enforcers. Interview data suggests a tentative concept of ‘soft violence action’ which indicates the practice of achieving goals through harassment, humiliation, blame, threat, stalking, criminal coercion, and other methods, all of which avoid using violence directly or causing serious physical damage (Focus group discussion F 2012). Victims commonly experience enormous stress, anxiety, and fear; as a result, most of them choose to withdraw from conflicts.

The choice of soft violence as a major ‘weapon’ generates great challenges for police investigation and evidence gathering. Police officers normally choose not to take action against unlawful enforcers if physical violence does not happen (Police officer A 2012). Law enforcement officers also fail to identify the leaders of criminal enforcement actions as they normally ‘command war’ through remote control (Guo and Liu 2010). The only measure police officers can take is crowd dispersal. Depending on the use of soft violence, an underground police organization can effectively defend itself against crime investigation. Enforcement services offered by underground police officers seem more efficient than local policing units, and thus unlawful enforcers are invited by an increasing number of customers (e.g. real estate developers, gambling house owners, bar managers, self-employed businessmen, underground bank owners) to deal with a wide range of disputes.

Underground police officers are frequently employed to resolve a wide range of disputes such as neighbourhood conflicts, traffic accidents, and debt enforcement (Wei 2008). They are also invited to assist entrepreneurs in monopolizing local markets by disrupting

their competitors (Xinhua 2009b). Extra-legal protection and quasi law enforcement are the best-selling commodities in the illegal markets. For example, disputes between sex workers and customers are common and often escalate to violence. Underground police officers become the only effective choice for sex workers and brothel operators to protect their property rights and personal security as both buying and selling sex are illegal in mainland China (Zhao 2012b).

Furthermore, illegal protection and enforcement services are beneficial to local governments. This gives rise to the formation of the collaboration between local authorities and illegal enforcers, a surprising truth in post-Mao China. Criminal enforcers are acting as ‘servants’ of local government as they can act outside the law which local authorities cannot (Hou 2008; Wang 2011). The provision of dispute resolution services by extra-legal enforcers in demolition projects is a good example to illustrate this unusual phenomenon.

The transfer of land-use rights has become an important source of income for most Chinese cities because Chinese local government buys land at a low price and sells it at a high price (Walker and Hin 1994). As Chinese economist He Qinglian argues, they ‘requisition’ land from the original occupants through various means, without considering the rule of law (2007b: 45). During this process, the toughest issue local authorities have to conquer is ‘nail households’ (*dingzi hu*)—property owners who refuse to ‘give up rights of return on their property when they are offered what they consider insufficient compensation from developers’ (Mertha 2009: 234).

Services offered by criminal enforcers, suggested by the existing literature and interview data (Businessman B 2012; Focus group discussion D 2012), are deemed as efficient when dealing with the problem of ‘nail households’ (Osburg 2013; Zhao 2012b). In contrast with the violent demolition that has been described by the media as a symbol of China’s urbanization, most demolition projects in recent years proceed without causing death or injury to residents (Focus group discussion E 2012). Local government officials and real estate developers reveal that street gangs or underground police officers are only invited when local government officials and real estate developers have tried every legal measure but failed to persuade ‘nail households’ to relocate. The practice of stalking, threats, and trespass used by these criminal enforcers have proved more effective (Businessman B 2012).

For example, one resident refused to relocate despite all troubleshooting measures taken by real estate developers and local authorities, but he agreed to accept the compensation immediately after the involvement of street gangs in the project. The only requirement of relocation was transferring his grandson to a new school in a different city as his grandson was bullied, threatened, and harassed by unknown persons (Yu 2008a; Zhao 2012b). The involvement of street gangs in the demolition project is allowed by local authorities, thus local police officers turn a blind eye to these illegal actions and only intervene if injuries or deaths are caused.

The protection sector charges different prices not only for different services, but also for different groups of customers. Take 'underground emergency services' for example. Each member who participates in quasi law enforcement can obtain around 100 RMB in appearance fees each time (Cheng et al. 2009). Compared with rank-and-file members, each organizer or gang leader can earn more money, ranging from 1,000 RMB to 3,000 RMB (Yan and Sun 2005). In addition, some organizers overstate the number of members who are actually involved in enforcement actions in order to make extra money (Guo and Liu 2010).

When a conflict or dispute is resolved by exceptional means, like violence, rather than pure coercion, each member can receive at least 200 RMB. Violence will inevitably result in some injuries. In this case, employers have to pay the medical bills of all the members who are injured in the process of resolving disputes. If extra-legal enforcement activities bring unexpected outcomes such as criminal investigation and prosecution, employers have to pay a large amount of damages for 'settling-in allowance' or 'travel allowance' (Liang 2010). To establish good relationships with local authorities or entrepreneurs, underground police officers sometimes offer free services or services charged at a certain discount (Manager B 2012).

Unlike 'underground emergency services' that usually require dozens or even hundreds of people to assemble and react quickly, the debt collection service is often offered by a small group with fewer than five persons (Wei 2008; Xu 2005). It is one of the most profitable businesses since illegal enforcers normally charge 30 per cent to 50 per cent of the successfully collected money (Focus group discussion I 2012). They may charge a discounted price, however, if employers and collectors have formed a long-term and harmonious relationship (Xu 2005). Regarding the provision of land dispute

resolution services by illegal enforcers, there is no clear information on service charges. But the existing literature suggests that the net profit of demolition services is even more than that of operating gambling dens (Zhao 2012b).

### *The mechanism of emergence*

In China, the supply of abundant surplus labour and the demand for illegal protection have resulted in the rise of underground police organizations. To be specific, on the supply side there are mass lay-offs and peasant migrants. On the demand side there is the great market need for quasi law enforcers caused by a growing distrust both of police officers and of the entire legal process.

The World Values Survey suggests that ‘Chinese citizens in general had lower levels of confidence in police than the U.S. citizens did’ (Wu and Sun 2009: 174). This might be due to the fact that police officers have been clearly associated with serious corruption. There is a growing body of literature discussing police corruption and the links between criminal groups and police officers (Chin and Godson 2006; Jiao 2001; Wang 2013b). Vocabulary frequently used by the existing literature shows a low level of confidence in police enforcement: unfairness, taking bribes, extortion, torture, and the collusion between police and gangsters (Broadhurst 2013; He 2007a; Qiu 2008).

The lack of efficient and effective policing is another serious problem urging private individuals and entrepreneurs to find alternative sources of protection. The Secretary of the Political and Legal Commission in a county-level city of Shandong province points out that the lack of police results in the failure of local police officers to meet the society’s needs for law and order. As he states,

In 1993, the police-population ratio was one police officer for every 1,000 persons. This means that there were only 440 police officers for our city with a population of 440,000 in that period. The number of police officers has not changed for nearly 20 years, even though the population increased dramatically, from 440,000 to 640,000. In the last two years, the number decreased as about 70 police officers retired, but the local police department failed to recruit any new members. As you know, recruiting new police officers is not an easy issue in recent years because it requires candidates to pass both National Judicial Examination and Civil Service Examination (two of the most difficult exams in China). The number of police officers younger than 30 is fewer than five. In this case,

the aging problem brings great challenges for the efficiency of the police. (Government official B 2012)

As mentioned above, the limited number of police officers as well as the aging problem led to the incapability of police to deal effectively with social problems. Although all the police officers I interviewed assured me that they can immediately respond to emergency calls, most entrepreneurs I interviewed showed that law enforcement is neither fair nor effective (Focus group discussion C 2012; Focus group discussion E 2012; Government official A 2012; Police officer A 2012). Chinese users of quasi law enforcement agree that underground police officers are more efficient than the law enforcement agencies (Li 2008; Zhang 2008b).

The author's fieldwork data contradicts the survey evidence offered by other scholars. The data from both Beijing and rural areas shows 'highly positive popular perceptions of—and an overwhelming popular willingness to mobilize—both the courts and the police' (Michelson and Read 2011: 170). But further analysis suggests that the perception of people who experienced the process is far more negative than the perception of non-users. Their perceptions do not hold sway over the general perception of official justice as the ratio of users to non-users is low in China (Michelson and Read 2011). A high level of disillusionment and a more negative perception of the fairness and effectiveness of the legal process are fostered by concrete and first-hand experience (Gallagher 2006).

An interviewee's personal experience can be used to explain why many entrepreneurs would like to buy extra-legal services rather than resort to courts. In order to recover an unpaid invoice, he firstly decided to take the legal route. After winning the lawsuit, he thought he would recover his debt shortly. However, the enforcement chamber failed to enforce the judgment even after three years. This phenomenon is normally described as 'winning the case, but losing the money' (*yingle guansi, shule qian*). The failure of legal enforcement forced him to seek alternative means. A friend introduced him to an influential gang leader. After reaching an agreement on the division of money, he received payment within just three days (Focus group discussion D 2012). Negative experience with the courts and the high efficiency of private channels suggest that resorting to extra-legal enforcers is a preferable way to collect debts.

Another interviewee's experience is also useful to explain why local businessmen tend to rely on street gangsters to recover private loans:

I tried all legal means [e.g. negotiation through a middleman and lawsuit], but the debtor still refused to repay me. Nevertheless, I knew he had the ability to pay his debt. So I was really angry. Our friendship was ruined ... it was not about money! It is about *mianzi* (face). He [the debtor] treated me as an idiot. I told my friend [a street gangster] that he could keep any money he got back from my debtor. My friend managed to fully recover the debt and voluntarily gave me 60%. He is a trustworthy man; we have deep *ganqing* [affection]. (Focus group discussion I 2012)

This suggests that gangster's quasi law enforcement is genuine and efficient. Enforcement services offered by street gangsters are important for private entrepreneurs, complementing the means of legal enforcement and protection.

### **The Provision of Hospital Security by Unlawful Protectors**

Customers who buy or use extra-legal protection and quasi law enforcement services consist not only of private individuals, entrepreneurs, and local authorities who are unable to fight off 'nail households' through legal means, but also of state-sponsored institutions such as hospitals. China has experienced a growing number of medical disputes (Burkitt 2012; Liebman 2013). In recent years, the number of cases involving physical violence against doctors and nurses has risen. As the *Economist* magazine states:

According to figures from the Ministry of Health, more than 17,000 'incidents' aimed at hospitals and their staff occurred in 2010, up from around 10,000 five years earlier. (Economist 2012: online)

The doctor-patient relationship is increasingly being eroded by tension and violence. A national survey financially supported by the Chinese Association of Science and Technology of 3,665 medical professionals and 1,198 patients in 2008 suggests that:

80% of the surveyed medical professionals say the doctor-patient relationship is poor or very poor ... In fact, 3.9% of the surveyed medical professionals report having been physically assaulted by patients or their relatives within 1 year, more than half say that they have been subject to verbal abuse, and nearly a third say that they have been threatened. (Zhang and Sleebloom-Faulkner 2011: 460)

Meanwhile, the increasing erosion of the doctor–patient relationship is also closely associated with a new phenomenon: ‘Yi Nao’, which refers to medical or hospital disturbance created by patients or their family members or gangsters. The number of Yi Nao has increased dramatically over the past ten years (Zheng et al. 2006). In order to meet the great demand from patients and their relatives who want to use Yi Nao to obtain compensation for perceived or actual medical malpractice, Yi Nao gangs consisting largely of unemployed people are frequently invited by patients or their family members to deal with medical disputes (Hesketh et al. 2012a). The involvement of Yi Nao gangs poses serious security problems for most local hospitals in China. As Hesketh et al. argue:

Criminal gangs are prepared to go to extreme lengths to obtain compensation from hospitals on behalf of families in dispute with hospitals, in return for a substantial cut of the payment. Hospitals are usually forced to give in to their demands, but often not before serious damage has been done to staff and facilities. Of the 124 cases of violence reported on the website, 37 involved Yi Nao, including many of the more serious attacks in the past five years. (2012a: 1)

The high frequency of verbal abuse and physical assault directed against medical professionals and the use of Yi Nao vigilante groups signal that China’s medical profession is in crisis. As a consequence, hospitals and local governments attempt to protect health-care workers by adopting various strategies such as increasing police patrols presence inside hospitals, improving communication between doctors and patients, increasing investment in health resources, and improving the effectiveness of medical malpractice litigation (Hesketh et al. 2012a; Hesketh et al. 2012b; Wang et al. 2012). Legal means of anti-violence in hospitals require not only a large amount of government investment but also long-term institution building. This means they cannot become effective in the near future. As a result, local hospitals have introduced a pragmatic solution: the purchase of protection services offered by ‘informal security teams’.

Informal security teams are unlawful enforcers who are invited to cope with the problem of hospital violence and to protect medical staff and hospital property. Compared with private security firms that can only supply services that have been authorized by the government, informal security organizations are able to offer extra-legal means of dispute resolution which Chinese law prohibits but hospitals actually need (Focus group discussion F 2012).



The provision of hospital security by unlawful protectors is a widespread phenomenon in China, but it is relatively unknown in Western countries. Therefore, the following parts discuss three major aspects of these unlawful security groups that offer quasi law enforcement to many local hospitals: group structure, illegal activities and methodology, and the mechanism of emergence.

### *Group structure*

In order to adapt to the changing institutional environment, 'Chinese criminal forces have chosen a variety of organizational structures ranging from hierarchy to the market and the network' (Xia 2008: 1). Xia's interpretation provides insights for this book to explain the organizational formation of informal security organizations. A traditional hierarchical structure that usually consists of a 'dragonhead' on the top with varying levels of members beneath him is not an effective organizational form for these informal security organizations. This is because the demand for security services varies every day and one group of extra-legal protectors may find it difficult to fulfil the needs in situations when street gangs are invited by patients and their relatives to take part in Yi Nao. Interview data suggests that many informal security organizations adopt the network form of organization that is thought flexible and effective (Focus group discussion F 2012). These groups usually operate independently, but will collaborate closely if necessary. In other words, other criminal groups will provide assistance if an informal security organization is unable to defeat Yi Nao gangs.

Many informal security organizations have legitimate business fronts. For example, *Southern Weekly*, China's most influential liberal newspaper, reports that over 100 hospitals have outsourced medical dispute resolution to one company called 'Daocheng Hospital Management Company' (Daocheng) because hospitals are less capable of dealing with Yi Nao (Cai 2012a). Although the involvement of Daocheng in settling medical disputes has been supported not only by local hospitals but also by local governments, services offered by Daocheng are prohibited by the rule of law.

According to fieldwork data, the informal security organization in my research site recruits unemployed people consisting of laid-off workers, ex-prisoners, and hooligans (Focus group discussion F 2012). This type of organization prefers to recruit young men aged

between twenty-two and twenty-eight over 180 cm tall. Sportsmen, retired soldiers, and students from police colleges who have ‘scary’ faces are viewed as best candidates (Cai 2012a).

### *Illegal services and methodologies*

Informal security organizations are invited to take charge of three major aspects: resolving medical disputes, protecting medical professionals and hospital property, and stopping disturbances created by patients and their relatives (Cai 2012a). In order to avoid prosecution, these informal security groups frequently adopt soft violence as a means of enforcement. Coercion, threat, and fraud are common methods for settling medical disputes and suppressing Yi Nao. The trigger for use of violence by unlawful protectors is aggressive behaviour by patients or their family members (Lv 2007).

Here is an example of how one unlawful security group expands its illegal protection business (Focus group discussion F 2012). One criminal group (the Tian’an group) reached an agreement with a local hospital to deal with medical disputes and Yi Nao in 2004. At the beginning, the hospital was routinely patrolled by eight informal security staff. The involvement of the Tian’an group brought a fundamental change to hospital security: the number of Yi Nao decreased dramatically. The positive feedback from the hospital helped the Tian’an group build its reputation. As a result, other institutions (e.g. high schools) in need of extra-legal protection also purchased services from the Tian’an group. In order to meet the increasing demand, the leader of the group adopted two strategies to improve productivity and profitability: 1) recruiting new members, 2) adopting flexible working practices such as moving workers from location to location according to demand. If hospital professionals were not bothered by Yi Nao, senior managers of the hospital did not care about how many informal protectors worked every day. The Tian’an group was therefore able to make a large profit because the hospital hired and paid for eight guards, but only three routinely patrolled the hospital.

Overstating the number of medical disputes, fabricating the details of hospital disturbances, and even recreating Yi Nao if necessary; all these tactics are employed by these informal security groups to remind hospital managers that without their protection hospital violence will certainly occur (Cai 2012b). The unlawful strategies

applied by informal protectors can generate a long-term demand for protection from local hospitals. Moreover, these unlawful protectors are frequently invited by patients and their relatives as Yi Nao gangs to settle medical disputes with other hospitals that are not under their protection (Cai 2012a). To sum up: coping with, and at the same time recreating, Yi Nao is a means by which the power of informal security companies can persist for a long time.

### *The mechanism of emergence*

The purchase of extra-legal protection and unlawful enforcement is a pragmatic strategy that helps many local hospitals respond to the changing environment, where legal channels of dispute resolution are unable to settle the increasing number of Yi Nao. It is therefore worth examining the reasons why patients and their relatives tend to regard Yi Nao as an important way of expressing their dissatisfaction with poor medical treatment and as a way of obtaining compensation for perceived or actual medical malpractice. Confronting medical disputes, patients and their family members can adopt three methods of resolution: administrative mediation by local health bureaus, medical malpractice litigation, and third-party mediation (Liebman 2013; Wang 2005).

The rise of violence and protests relating to medical disputes signals the failure of these legal channels of dispute resolution. Firstly, studies show the widespread distrust of administrative mediation (Zhu 2010). The reason suggested by Hesketh et al. (2012a) is that legal channels for mediating medical disputes, which operate through local health bureaus, are inefficient and perceived to be heavily weighted in favour of the medical establishment.

Secondly, pursuing doctors for compensation through the courts is perceived as unreliable and inefficient. In medical malpractice lawsuits, 'the key step is for the claimant to prove that the physician failed to meet the required standard of care' (Samanta et al. 2006: 321). Nevertheless, patients and their families normally do not have such knowledge.

According to the 2002 Regulations on Handling Medical Accidents issued by the State Council, medical review boards are intended to evaluate whether or not a 'medical error' that caused personal injury to a patient 'results from medical personnel negligently violating relevant laws, administrative regulations, rules, standards governing medical care, or ordinary practice' (Liebman

2013: 12). In practice, the review board consists of local doctors who are likely to protect hospitals and colleagues, so this mechanism finds it difficult to obtain trust from patients.

Moreover, conflicts remain in the existing law and regulation governing medical disputes. Tort Liability Law of People's Republic of China, effective as of 1 July 2010, is designed to improve the ability of the courts to settle medical negligence and medical malpractice. But the State Council has not amended the 2002 Regulation, which should be made consistent with the Tort Liability Law (Chang 2010). This brings great confusion to medical malpractice litigation.

Finally, many local governments are attempting to create an alternative mechanism for medical disputes: the non-lawsuit model through third-party mediation (Zhao 2011). The new channel of dispute resolution which has been led by governmental authorities, People's Mediation Committees, professional organizations, and insurance companies is an innovative solution designed to reduce tension between doctors and patients (Lan et al. 2009). However, the third-party mediation mechanism suffers from a series of problems, such as 'the lack of a sustainable supporting mechanism, unclear legal status of the mediation institutions and mediation agreements' (Zhao 2011: 401). Popularising this new method will not be an easy job in the near future.

Administrative mediation, medical malpractice litigation, and third-party mediation are important aspects in painting a picture of institutional failure. The fact is that the current system is designed to protect hospital interests, resulting in the lack of public trust in formal institutions and encouraging patients and their families to resolve their claims through aggression and disruptive behaviour (Liebman 2013). Meanwhile, the Yi Nao gang, a new type of organized crime group, have emerged out of the power vacuum created by the absence of state protection and enforcement.

In order to deal with violence against medical professionals, many local hospitals form long-term cooperative relationships with local police departments (BBC 2010; Chi and Wang 2010; Hou 2010). However, this type of collaboration suffers from two problems. On the one hand, the involvement of police officers is not effective in practice, as police officers have to perform their duties in strict compliance with the law and choose to take action only if physical violence does happen. This means they usually do nothing if hospital violators disturb regular hospital orders without

using physical violence. On the other hand, cooperation between hospitals and police departments is criticized by the public since police officers should focus on protecting lives and property of the general population rather than focus only on assisting hospitals in dealing with Yi Nao (Chi and Wang 2010; JCRB 2010). Consequently, unlawful protection supplied by laid-off workers, ex-prisoners, and street gangsters who specialize in the use of soft violence has become the most effective strategy to settle the problems of Yi Nao.

To sum up, a thorough analysis of two cases illustrates the relationship between the failure of state institutions and the rise of the extra-legal protection business. It shows that quasi law enforcement or extra-legal protection is a booming and profitable industry attracting great interest from the so-called ‘urban underclass’—marginalized people. The rise of unlawful protectors in post-Mao China encourages researchers to explore how private individuals and entrepreneurs resolve disputes and protect rights by resorting to various forms of protection and enforcement.

### **The Role of Guanxi in Obtaining Extra-legal Protection**

New economic sociologists argue that economic actions are affected by social relations (Granovetter 1992). In contemporary China, economic behaviour of individuals (e.g. the purchase of protection and enforcement) is embedded in guanxi networks. The author’s fieldwork in Qufu provides an opportunity to examine the exact role of guanxi networks in the selling and buying of extra-legal protection services.

Some interviewees are more likely to purchase services from street gangsters; while others do not think the purchase of gangsters’ protection is a rational choice and they prefer to seek help from local public officials or resort to state justice system. It can be argued that the choice of the model of protection and enforcement depends on the resources people possess. The prerequisite for the use of extra-legal protection is the creditworthiness of unlawful protectors that has been established by the level of trust and reputation in the guanxi network. In other words, the use of extra-legal protection has been greatly influenced by guanxi resources (networks). The following examples are selected to explain how individuals and entrepreneurs employ guanxi networks to obtain

different forms of protection and enforcement in order to cope with government officials' extortion, solve the problem of being stalked, and enforce loan repayment.

### *Coping with government officials' extortion*

Although local governments attempt to promote the efficiency, accountability, and transparency of public administration, extortion by public officials is still a problem for most private enterprises (Dunfee and Warren 2001). Many people interviewed by the author are angry over government officials' illegal conduct, especially extortion by tax auditors. In China, there are no standard rules on how to prepare company accounts, especially for private companies, thus it is very easy for tax auditors to find faults with income tax if they wish (Chang 2011). Private companies with sound business performance are normally targeted.

Two types of counter-measures are applied by most entrepreneurs to confront government officials' extortion. The first strategy is the use of protection offered by street gangsters based on the guanxi network. One of my interviewees (Businessman Kong) tends to ask for help from his sworn brother (a reputable gang boss Zhu) to deal with the troubles brought by corrupt taxmen. A phone call from gang boss Zhu is enough to end the extortion activities. As businessman Kong says:

What they (tax auditors) want is money ... if they find their activities will result in a terrible outcome like their families are threatened, all of them will stop their dirty businesses. Then they will turn their attention to any other companies. You see, earning extra money is so easy for them. (Focus group discussion D 2012)

The involvement of street gangs in fighting against extortion by the tax bureau is not unusual, where the political and legal system fails to clearly specify criteria which local governments must follow and to strictly enforce these criteria. The behaviours of these unlawful protectors include threatening phone calls and messages, and unwanted appearances at an official's home. Creating fictive kinship (e.g. sworn brothers) with street gangsters is an efficient way to reduce the uncertainties and strengthen mutual trust. As Wang et al. (2014: 505) argue, 'being sworn brothers is a way to add sentimental components into guanxi and shorten the psychological distance between them'. The main cost of using a gangster's

protection, suggested by businessman Kong, is *ganqing touzi*, which refers to the investment in personal relationships to build a close or good *guanxi* with criminal protectors.

The second strategy is the use of *guanxi* networks to secure protection from government officials. My interviewee (Businessman G), who is an influential entrepreneur, is more likely to use his personal *guanxi* network with government officials to resolve extortion by taxmen. The reason why businessman G refuses to purchase protection from gangsters is that street gangs are untrustworthy and purchasing illegal services from them will diminish his reputation in the local community. When he was asked whether his company experienced extortion by corrupt tax auditors, his answer was yes, but he suggested a different type of coping strategy:

Last time the tax auditor showed up in my company, he found faults in the company books. My company was required to pay tax shortages: 2,000 RMB, which they found after a whole day's investigation. After payment, my subordinates and several auditors went to dinner together. I did not attend that reception. After expensive drinks and seafood, all the auditors said that despite finding a small problem in the company books, the accounting system of my company was much better than that of other companies ... sometimes I have to rely on personal relationships if drinks and food do not work. Last year, inspection by tax auditors was so frequent. They found new problems in my income tax every time. This meant what they wanted was more than drinks and small gifts ... In order to stop their disturbances, I turned to my friend Xin who is the head of the local government. My friend Xin helped me organise a dinner with the head auditor. From then on, there were fewer troubles because they realised that I had a close *guanxi* network with the local government ... Inspection by tax auditors is very disturbing...the tax burden for private companies is huge, but we still have to pay extra money for their drinks. (Businessman G 2012)

The background of these two businessmen may be useful to interpret why two wholly different types of counter-measures are applied. Businessman Kong operates a medium-size enterprise which is one of the fastest-growing companies in the local community, while a private company owned by businessman G is a leading enterprise which was owned by the local government and privatized in 2001. Businessman G is also a member of the local people's congress. The social status of G has enabled him to establish social connections with local authorities; as a result, seeking help from senior officials is regarded as the best strategy in preventing

government officials' extortion. By contrast, businessman Kong, who lacks a close guanxi with government officials, is more likely to purchase gang services.

### *Solving the problem of being stalked*

Interview data further suggests that the possession of close guanxi with government agencies can be inadequate to meet the demand for protection. Resolving some kinds of disputes also requires those seeking help to employ guanxi networks with business friends and gang bosses. Here is an example of how an interviewee (Businessman F) solved the problem of being stalked.

Businessman F, a successful entrepreneur, operates a private company which has been ranked as one of the largest construction firms in the city. The secret of his success is nothing more than the creation of close guanxi relationships with the local government. In 2012, Businessman F was stalked by unknown persons and received a series of threatening calls and messages. Using mobile phone surveillance systems, police officer Deng, a good friend of Businessman F, provided the details of the persons (gangsters Yao and Feng) who made threatening calls. The police officer suggested that a face-to-face meeting with gangsters Yao and Feng was not a safe choice for businessman F. Then a reputable gang boss, Gong, introduced by one friend of businessman F, was invited to have a talk with Yao and Feng in order to find the person (Businessman Ku) who was responsible. After obtaining the information, the problem of being stalked (which was caused by a commercial dispute) was finally resolved when a middleman, Ming, was involved in the talks between Businessmen F and Ku. This is a perfect example of a complex web of connections (with police officers, businessmen, and gangsters) successfully operating in a guanxi network.

Defining stalking is not easy. The concept suggested by Westrup and Fremouw (1998: 255) is: 'stalking denotes the unwelcome, repetitive, and intrusive harassing and/or threatening behavior directed toward a specific individual'. Similarly, Roberts and Dziegielewski (1997) argue that:

In stalking, an individual repeatedly engages in harassing or threatening behaviors to another individual. These behaviors can and often do take the form of threatening phone calls, messages, vandalism, or unwanted appearances at a person's home or workplace. (p. 361)



In China, legal sanctions and laws to protect the victims of stalking have been criticized as lacking. Stalking has not received a great deal of attention from the media and law enforcement agencies. Similarly, fieldwork data suggests that police officers fail to protect citizens from the threat of stalking. Victims of stalking who seek public protection from the legal system are often informed by state authorities that a police officer's duty to intervene does not arise until the perpetrator has harmed them physically (Bradfield 1998). This results in two unintended consequences. On the one hand, stalking becomes the most effective means of enforcement applied by criminal groups, especially unlawful enforcers. For example, most 'nail households'—people who refuse to relocate—will agree to change their residences after the experience of being stalked. On the other hand, victims of stalking who lack public protection have to purchase gangsters' services, facilitating the rise of the extra-legal protection industry.

### *Enforcing loan repayment*

The existing literature suggests that informal financial institutions can substitute for formal financial systems (Chen and Touve 2011; Tsai 2007). Informal lending institutions in China can be divided into two main types: (1) interpersonal lending (*minjian jiedai*) which is 'largely legal and very commonly used by among entrepreneurs'; and (2) informal lending by private money houses and underground banks that 'charge very high interest rate above the state-mandated interest rate ceilings and are thus banned by the People's Bank of China' (Ayyagari et al. 2010: 3054).

Underground banks are illegal but active in China's coastal provinces where private firms prosper (Tsai 2004). Their illegal status makes underground lending organizations reluctant to resort to state-sponsored monitoring and enforcement mechanisms. Underground lending organizations, therefore, are more likely to 'rely on trust, reputation or coercion and violence for payment of loans' (Ayyagari et al. 2010: 3055). That is to say, extra-legal protection and quasi law enforcement offered by street gangsters contribute to the prosperity of underground loan sharks in contemporary China. The following paragraphs analyse how the debt collection mechanism of underground banks works.

The first step is to urge the debtor to fulfil his debt through *guanxi* practice. It is impossible for strangers to get a loan from

underground banks. Access to underground lenders is usually based on networking through common friends (Ayyagari et al. 2010; Yu 2010a). When the payment is overdue, the introducer becomes the first enforcer to persuade the debtor to fulfil his responsibility. In order to promote the effectiveness of enforcement, false rumours such as ‘XX is untrustworthy’ will be spread among the debtor’s friends and family members. In this case, failure to fulfil an obligation is closely associated with losing face (*mianzi*) (Focus group discussion D 2012; Focus group discussion E 2012). In order to protect his *mianzi* or dignity, the debtor tends to make the loan payments.

The next step is to buy quasi law enforcement from street gangsters who are usually effective in claiming loans from debtors. Underground banks usually hire debt collectors—most of whom are gangsters—to claim loans from debtors if guanxi practice does not work (Manager D 2012). Stalking, coercion, and violence are major means of enforcement employed by debt collectors. However, the involvement of unlawful enforcers may not be effective in some situations, such as when the debt collector is the mutual friend of both moneylender and debtor (Focus group discussion E 2012). The debt collector will lose his *mianzi* or prestige if he carries out enforcement duties regardless of the existing guanxi ties. The failure of criminal enforcement compels moneylenders to resort to the courts.

The final step is to recover debts through the courts. Although underground banks are not sanctioned by the government, the loan contract signed by both parties is sufficient for underground moneylenders to recover their debts. The information about high interest rates is not included in the contract, but the amount of money in the loan contract is a total of principal and interest (Focus group discussion C 2012). Even if the judges decide in favour of the plaintiffs, debt recovery is much slower than the use of debt collectors. For this reason, resorting to the courts is usually regarded as not the preferred choice.

To sum up, the fieldwork data discusses how entrepreneurs in China obtain genuine protection through guanxi practice. Illegal protection and quasi law enforcement are widely used to prevent government officials’ extortion, defend themselves against stalking, and improve the efficiency of debt collection. Stalking, coercion, and soft violence are means and resources employed by street gangsters in the provision of criminal protection (or extortion) when laws and legal sanctions fail to protect victims. Interview data also shows that the purchase of extra-legal protection by

entrepreneurs is largely based on trust and reputation in the *guanxi* network.

On the one hand, *guanxi* practice facilitates entrepreneurs—especially illegal entrepreneurs—to purchase illegal services offered by criminal groups. On the other hand, the *guanxi* network sometimes makes mafia services ineffective, for example, criminal enforcers who are invited to enforce loan repayment belong to the same network as the debtors. Under such circumstances, illegal entrepreneurs have to resort to the legal system. In a departure from this part that aims to provide the logic of using extra-legal protection businesses in China, the following section focuses on theoretical challenges posed by the study of extra-legal protection. These challenges urge criminologists to reconsider the definition of organized crime and to revise the widely accepted interpretation of Chinese organized crime.

## Theoretical Implications

### *Soft violence*

Criminologists have selected a set of primary and secondary characteristics to define the concept of ‘organized crime’. Among them, the use of violence or threats of violence has been generally accepted as an important dimension of organized crime (Alach 2011; Finckenauer 2005; Hagan 2006; Schelling 1971; Varese 2010b; Von Lampe 2006). As Hagan (2006) argues:

What is essential to the definition of organized crime is the ability to use, and the reputation for the use of violence or the threat of violence to facilitate criminal activities, and in certain instances to gain or maintain monopoly control of particular criminal markets. (p. 134)

Violence has also been identified by most Chinese criminologists and legal practitioners as one of the defining features of organized crime groups (He 2009a). However, the changing macro socio-economic environment encourages organized crime groups to adopt new strategies to facilitate criminal activities and achieve criminal profits (Ayling 2011). Since the beginning of the 1980s, the dramatic rise in violent and other serious crime has seriously threatened China’s social stability (Xia 2006). In order to restore public order in post-Mao China, the Chinese central government launched four rounds of *Yanda* (literally, ‘strike hard’) anti-crime campaigns in 1983, 1996, 2001, and 2010 (Broadhurst 2013;

Trevaskes 2010). Moreover, local government authorities have organized a series of *Dahei*—literally, ‘hit or strike black’—through anti-gang campaigns (Lam 2012; Wedeman 2012b). Both *Yanda* and *Dahei* target violent and other serious crime such as intentional injury, murder, robbery, and ‘quarrelling and fighting’ (*douou*).

The prevalence of campaign-style policing suggests that the use of violence brings great risks to the survival of criminal groups. Where the expected costs of a violent action are high, criminals, including quasi law enforcers, tend to produce and sell their unlawful commodities and services without resorting to violence or aggressive behaviours (Liu 2010; Zhao 2012b). Soft violence or coercion, therefore, is becoming a key feature of organized crime groups in China, especially these involved in the provision of unlawful protection (Li 2011a; Zhou and Zhao 2011). This argues against the existing understanding of organized crime, which regards the use of violence as one of the most important characteristics.

Criminal groups who specialize in the use of soft violence enjoy comparative advantages over violence-based organized crime groups. In contrast with physical violence, soft violence is a type of psychological abuse that can influence or control the inner choices of victims.<sup>1</sup> It can force them to make decisions unfavourable to themselves because soft violence causes psychological trauma, including anxiety, chronic depression, dissociation, and anger. By using soft violence or organized coercion, street gangsters not only obtain substantial profits from their illegal activities but also significantly reduce the risk of being caught and punished by the law (Zhao 2012b). As a result, soft violence has become one of the most cost-effective means applied by many criminal groups in contemporary China.

### *Corruption*

Obtaining protection from corrupt government officials, especially those from the criminal justice system, is a key criterion for law enforcement agencies to distinguish mature criminal syndicates

<sup>1</sup> Gang bosses who have an established reputation in the criminal underworld are often invited by people of their *guanxi* networks to resolve disputes and enforce loan repayment. The use of soft violence does not mean criminal enforcers are less capable in using physical violence; rather, extra-legal enforcers who specialize in the use of soft violence normally have a reputation for the use of physical violence.

(organizations with the character of black society, *heishehui xingzhi zuzhi*) from ordinary crime groups (Broadhurst 2013; Chin and Godson 2006; Finckenauer 2005; Wang 2013a). After the establishment of the 'political-criminal nexus' (the collusion between the criminal underworld and the political establishment), various kinds of protection will be offered by corrupt officials (Antonopoulos 2013). As Wang (2013b: 20) suggests:

[Favours provided by the political establishment include] protection against extortion conducted by public officials, protection of criminal businesses, protection against police harassment, protection against criminal investigation and protection against legal punishment.

Most illegal businesses, such as gambling and prostitution, need illegal protection from corrupt government officials because they face a high risk of imprisonment. However, purchasing protection from police officers is an unnecessary investment for most extra-legal protection groups as they are able to stay safe even during crime crackdowns (Li 2011a). This encourages many illegal entrepreneurs to reallocate capital from traditional areas, such as gambling or prostitution, to a highly profitable and low risk business—the provision of private protection (Zhao 2012b).

By using soft violence, unlawful protectors provide governmental services for illegal entrepreneurs in the criminal underworld and offer quasi police emergency services for citizens, all of which seem beneficial to the societies. Hence, to date China does not have any clear laws or regulations dealing with the problem of soft violence (Liu 2010). It thus creates the very conditions that are favourable for the formation of these unlawful groups. Even for these street gangs that get their main source of income through the business of assisting local authorities in resolving stubborn 'nail households', corruption of police officers is not necessary (Zhao 2012b). The reason why local governments and real estate developers purchase illegal services (quasi law enforcement) offered by unlawful protectors is their reputation for soft violence.

Guanxi also plays a significant role in the buying and selling of private protection. Unlawful enforcers popularize their services by utilizing their guanxi networks with real estate developers and local authorities. This type of guanxi network is, however, different from corrupt guanxi networks (the protector–protectee relationship) created between police officers and crime groups. The former, like business guanxi, is used to seize business opportunities, while

the latter is built to enable crime groups to obtain illegal protection from government officials.

## Conclusion

In contemporary China, extra-legal protection groups, using intimidation, harassment, stalking, or organized coercion, and backed up with the threat of violence against property and persons, are thriving. The existence of underground police organizations and the provision of hospital security by unlawful protectors strongly challenge most criminologists' perception of Chinese organized crime. Soft violence, organized coercion, and stalking make the provision of extra-legal protection a profitable and relatively safe business.

Both fieldwork data and the existing literature indicate three important trends in the evolution of criminal groups in contemporary China. First, the booming extra-legal protection market involves a large number of laid-off workers and peasant migrants, which means providing illegal protection or participating in unlawful enforcement has become an important way for marginalized people to survive. Second, more and more crime groups have shifted their illegal businesses from traditional areas such as prostitution and gambling to the provision of protection and enforcement in legitimate sectors of the marketplace in order to avoid being destroyed by police crackdowns. Third, gang bosses that have established their reputation in the criminal underworld are frequently invited by individuals and entrepreneurs to settle disputes and enforce loan repayment. Assisting local authorities in solving the problem of 'nail households' not only brings generous profits to street gangs, but also makes a great 'contribution' to China's urbanization.

Protection supplied by gang bosses remains a social evil (see also Varese 2014). Extra-legal protection groups not only protect legitimate market participants but also sell protection and enforcement services to gangsters and illegal entrepreneurs, thereby promoting criminal activities such as illegal gambling, theft, frauds, counterfeiting, robbery, and extortion.

China's weak legal system prompts private property owners to seek protection and enforcement sold by street gangsters, and the buying and selling of quasi law enforcement is based on trust and reputation in the *guanxi* network. In addition to buying unlawful services, the use of illicit services requires purchasers to invest

in 'personal affection' and 'friendship' in order to establish a high level of trust. Extra-legal protection or quasi law enforcement is therefore a luxury item because developing and/or maintaining *guanxi* with unlawful enforcers costs time, energy, and money, all of which are limited resources.

A more intractable problem in quasi law enforcement is the potential for extortion. If unlawful enforcers develop expertise and ability in the use of soft violence or organized coercion, the incentive for extortion is great. This potential discourages people who do not have *guanxi* relationships with criminal enforcers to purchase extra-legal services. This is the reason why many entrepreneurs interviewed by the author indicated that they would abandon their claims if the executive branch failed to enforce court decisions rather than asking for help from street gangsters. However, in the absence of functional legal or law enforcement systems, people without connections with unlawful enforcers may start to develop *guanxi* relationships with these gangsters and rely on the use of extra-legal protection to prevent government officials' extortion, defend themselves against stalking (or organized coercion), and improve the efficiency of debt collection.

## 5

### The Red Mafia

Contradictions between *guanxi* and the formal legal system, as Chapter 3 argues, make the state unable to prevent public officials from abusing power to meet demands from *guanxi* members. Corrupt practices in China can be divided into three major categories: *guanguan xianghu* (mutual protection among public officials, or officials protecting and shielding each other), *guanshang goujie* (collusion between public officials and businessmen), and *guan-fei yijia* (collusion between public officials and gangsters). Both published materials and fieldwork data show that senior public officials are principal distributors of corrupt benefits, employing *guanxi* networks to facilitate corrupt transactions with colleagues, entrepreneurs, and gang bosses. Similarly, seekers of corrupt benefits prefer to develop *guanxi* networks or make use of existing *guanxi* ties to access privileged services provided by corrupt public officials.

This book coins a new term, ‘Red Mafia’, to refer to corrupt public officials who earn illegal profits through the supply of private protection. ‘Protection’ here means the corrupt benefits that result from abusing public office and which are distributed mainly through *guanxi* networks. For corrupt transactions within the public sector, protection services offered by officials include covering up each other’s wrongdoing, and ensuring promotion regardless of the formal rules for appointing and promoting personnel (Shih et al. 2012; Wang 2014; Zhu 2008). For corrupt exchanges between public officials and businesspeople, the main services supplied by officials include the unlawful provision of access to state resources, the disclosure of internal information and the unequal distribution of business opportunities (Lu 1999). Moreover, the collusion between gang bosses and public officials safeguards gangsters’ illicit businesses and enables them to avoid police detection and punishment (Chin and Godson 2006).



This chapter examines two categories of corruption—mutual protection among public officials and collusion between public officials and businesspeople—and leaves the third category (the political–criminal nexus between public officials and gangsters) for the next chapter. To be specific, it firstly examines the two forms of corrupt practice within China’s political and military systems revealed by President Xi Jinping’s anti-corruption campaign: the buying and selling of military positions and the creation of ‘underground societies’<sup>1</sup> (political–business alliances) that facilitate corrupt exchanges between prominent politicians and business elites. This chapter then offers a theoretical examination of the role of *guanxi* in promoting cooperation and preventing opportunistic behaviour.

### The Buying and Selling of Military Positions

China’s recent anti-corruption campaign reveals that the buying and selling of military positions has become a serious problem in the People’s Liberation Army (PLA). The information so far disclosed by the Chinese government is far from sufficient for researchers to assess how widespread this problem is, but scandals about the involvement of top military officers in selling positions offer some insights. Lieutenant General Gu Junshan, former deputy logistics chief of the PLA, was charged with the selling of hundreds of military positions (Lim and Blanchard 2014). Xu Caihou, who as a former vice-chairman of the Central Military Commission (CMC) and who was in charge of personal affairs for over a decade, was expelled from the Communist Party in 2014 for his alleged crimes, including taking enormous bribes in exchange for allocating promotions (Buckley 2014). During Xu’s tenure, the buying and selling of positions in the PLA was an open secret. As *Reuters* discloses, ‘if a senior colonel (not in line for promotion) wanted to become a major general, he had to pay up to 30 million yuan (\$4.8 million) ... lower ranking military positions were sold for hundreds of thousand of yuan’ (Lim and Blanchard 2014: online).

This trade in selling posts and buying promotions poses a grave threat to the Chinese government, because such transactions lead

<sup>1</sup> The term ‘underground society’ refers to a corrupt network consisting of senior public officials and wealthy businesspeople. It is known by other names including ‘secret club’, ‘secret society’, and ‘mountaintops’ (*shantou*) of power within the Chinese Communist Party.

to inferior quality of personnel. It reduces operational capability within the PLA, undermines public confidence in the military, and even affects the legitimacy of the Chinese Communist Party (CCP). Drawing on published materials and interview data with active and former military officers, this part aims to answer the following two questions: (1) what causes PLA officers to engage in the buying and selling of positions? and (2) how are positions bought and sold in the military?

### *The lack of institutional means for career advancement*

Military officers tend to buy promotions when there is no institutional alternative. Strain theory provides a useful framework for explaining the reasons for buying and selling positions in the military. Merton's strain theory suggests that crime or delinquency results from a lack of balance between culturally defined aspirations and institutional means (Merton 1938). Specifically, Merton argues that the widely accepted American Dream, which emphasizes monetary success and middle-class status, is not reachable for lower-class groups because of the unequal distribution of the means of achieving these goals. The lack of fit between means and goals produces strain and tension, encouraging people to resort to illegitimate means of goal attainment, including crime, corruption, and fraud (Agnew 1985, 1992).

Merton's strain theory can be used to test how strains and stresses are produced within the military promotion system. The buying and selling of military positions in China can be viewed as a predictable result of the lack of institutional means for achieving culturally defined goals. Traditional Chinese culture highlights the importance of official ranks in evaluating personal success, and thus 'high-official status' is widely accepted as the most important culturally defined goal (Zhong 2003). This phenomenon is known by Chinese people as the 'official-rank-oriented standard' (*guanbenwei*), and this standard still retains its influence in contemporary society (Zhang and Lin 2014). On the other hand, a new cultural goal—monetary success—was created by China's economic reform. In the 1980s, Chinese leader Deng Xiaoping employed political slogans to promote economic reform and opening-up; two influential slogans were 'to get rich is glorious (*zhifu guangrong*)' and 'white or black, a good cat is the one that catches rats (*buguan heimao baimao, neng zhuadao laoshu, jiu shi haomao*)' (Bian 1994b; Yan 2012). These slogans placed a strong

emphasis on monetary success but were vague on the means of achieving that goal.

In contemporary Chinese society, personal success is typically measured by power and money. The buying and selling of military positions is a major type of exchange between money and power. Such corrupt transactions not only enable office-buyers to obtain promotion (power) but also help office-sellers achieve capital accumulation (money). Office-sellers can use bribe money to achieve further career advancement through 'trading' with their superiors. Fieldwork in China produced valuable data to explain why the vast majority of PLA officers fail to attain promotion through legitimate means. Fieldwork data also suggests that the lack of institutional means provides incentives for military officers to obtain promotions through illegal measures.

The performance assessment system in the Chinese military fails to select competent officers through the formal promotion system due to two main reasons: (1) the absence of wartime challenges to assist with the selection of competent officers; and (2) the lack of scientific criteria in selecting officers through military training.

War is the best way to test an army's combat capability and identify the most competent military officers, but the PLA has not fought a real war since the Sino-Vietnamese War in 1979. In the early 1980s, the Soviet threat remained the principal concern for China's national security (Liao 2006c; Sheng 1992). In that period, the ability to carry out commands was a key element in the selection of competent military personnel, and the use of corruption in obtaining promotion was rare (Military officer H 2015). At the enlarged conference of the Central Military Committee in June 1985, Deng Xiaoping made a judgement that world war would not break out in the foreseeable future and claimed that peace and development were major trends in the world (Foot and Walter 2011). The Chinese government therefore reduced its defence budget and focused on economic development (Liff and Erickson 2013). The reduction in the military budget gave rise to the heavy involvement of the PLA in commercial activities, especially after Deng's Southern Tour in 1992 (Joffe 1995). China's economic reform, the involvement of the PLA in the civilian economy, and the lack of significant security concerns instilled in army officials the strong desire to get rich. In the 1990s, PLA officers achieved monetary success by any means they could find: selling military ranks emerged as an important strategy for middle- and

high-ranking officers to earn money, while lower-level PLA officers were able to gain promotion through bribery (Former military officer B 2015).

In 1998, President Jiang Zemin decided to increase defence spending and closed most military enterprises (Frankenstein and Gill 1996; Ji 2001). Jiang's efforts were effective in dismantling the military-business complex but had little effect on curbing corruption relating to appointments and promotions. The buying and selling of positions in the PLA reached its peak when Xu Caihou took charge of the appointment and promotion of high-ranking PLA officers from 2004 to 2013, during which time even high-ranking positions were sold (Former military officer L 2015). The absence of war during the last three decades has resulted in the loss of opportunities for competent officers to develop their skills, show their command abilities, and demonstrate their talent.

The inability of the Chinese military to identify competent officers is also due to problematic military training. The absence of war compels the PLA to rely on military training to select competent officers. Selecting officers through military training is, however, characterized by a lack of systematic and scientific criteria (Military officer H 2015). For example, zero tolerance to accidents in military training is a principal policy in the PLA, and this zero tolerance is also a major criterion for selecting candidates for promotion. In order to avoid training accidents, senior officers do not command their officers or soldiers to undertake risky tasks. As a retired army aviation officer discloses:

Military training seems like a soap opera (*yanxi ru yanxi*) with its scripts and detailed plots. The most fundamental task for senior officers is to prevent training accidents. This is because any accident can be a career killer for senior officers ... our division leader was forced to resign because of an aircraft accident during military training. That accident, according to my understanding, was due to aging aircraft ... to avoid accidents, fighter pilots are not allowed to carry out high-risk tactical actions. They just circle in the sky without shooting or bombing. (Former military officer A 2015)

Senior officers tend to simplify assignments in order to ensure safety in military training. This suggests that performance assessment through military training is less helpful in selecting highly qualified officers. The absence of wartime challenges and the lack of scientific criteria in selecting officers through military

training give rise to a weak formal system for the promotion of PLA officers.

Moreover, compared with officials in the state bureaucratic system, military officers who are subject to the ‘up or out’ mechanism suffer additional stress. Officer retirement ages have been established for operational, political, and logistics officers in combat troops based on their grade levels, for example, age thirty-five for battalion deputy leader, thirty-eight for battalion leader, forty for regiment deputy leader, and forty-five for regiment leader (Military officer H 2015). PLA officers either get promoted or leave the military when they reach these mandatory retirement ages (Kaufman and Mackenzie 2009). The establishment of the ‘up or out’ promotion system has increased the level of corruption in the PLA in two major ways. Firstly, failure to get promotion means leaving the military, and the cost of starting a new life is high, so officers who do not want to leave the military tend to bribe senior officers to secure promotion. An interviewee says that:

I will be demobilized this summer after 20 years of service in the military. I cannot imagine my future life in local government. I do not have any *guanxi* and valuable connections (*renmai*) with local businesses and government officials. How can I compete with others? I am almost 40 years old, but I have to start from scratch. (Military officer H 2015)

Even though the majority of PLA officers know they will be demobilized at some point, these officers still have incentives to gain promotion. This is because grade levels are ‘important not just to their status in the military but also to their career prospects after they leave’ (Kaufman and Mackenzie 2009: 74).

Second, the ‘up or out’ promotion system, which suffers from a lack of transparency and inadequate checks and balances, provides protection for corrupt activities. Chinese military officials face audits before promotion or retirement/demobilization. The audits, which are not made public, have become a major way for corrupt officers to launder dirty money. In an interview, a military officer told me:

There is a popular viewpoint among military officers: ‘use your power before it expires’ (*youquan buyong guoqi zuofei*). They [corrupt officers] do not worry about being detected by military prosecutors and punished by law. What they need to do is bribe senior officials who can influence the audit process. In most cases, auditors are just going through the motions (*zou guochang*) and no problem will be found. (Former military officer B 2015)

*Informal practices*

The lack of institutional means compels military officers to adopt alternative means of gaining promotions. But this does not inevitably lead to the buying and selling of military positions. The rise of corruption relating to appointments and promotions is also associated with other institutional flaws, such as the concentration of power in personnel issues and the lack of external monitoring. Drawing on interviews with military officers, Wang (2016) observes that the military system is characterized by a lack of checks and balances, and decision-making power over personnel matters is concentrated in the hands of the commander and the political officer in each unit. Rather than conducting mutual supervision, the two officers tend to cooperate with each other in order to protect their common interests. In the case of promoting their subordinates, the two officers have to compromise to make consensus decisions, because the maintenance of group cohesion within the unit is an important component of performance assessment, and disputes between the two officers exert negative influence on their future promotions (Wang 2016).

In order to enhance the Chinese army's capability of both waging war and winning, maintaining secrecy is an extremely important task for the PLA (Blanchard 2014). As Cheung (2011) points out, '[f]or secrecy and political reasons, civilian media organizations [in China] are careful about how they report military matters. Little, if any, independent investigative reporting takes place, and much of the coverage focuses on foreign issues and on Taiwan' (p. 139). The absence of external monitoring gives rise to an opaque system for the appointment, reappointment, and promotion of military officers.

The lack of institutional means, the concentration of power in the military promotion system, and the absence of external monitoring together create a fertile environment for corruption. In the case of the buying and selling of military positions, fieldwork data suggests that corrupt exchanges usually occur between officers who have *guanxi* ties. The sellers are unwilling to distribute promotion opportunities to unknown officials, so the buyers who do not possess social ties with the sellers are less likely to obtain promotions (Former military officer R 2015; Military researcher E 2015).

Senior officers distribute promotion opportunities based on two major factors: the strength of *guanxi* ties and bribe payment

(Wang 2016). The closer the guanxi between the candidate and the superior, the more likely it is that the candidate will be promoted. Transactions would not happen if guanxi networks did not exist.

Bribes are another important factor determining the allocation of opportunities. Lower-level officers who are members of superiors' guanxi networks are willing to pay to secure promotions or transfer to better positions. There are two reasons for this: (1) payment, in the form of cash or expensive gifts, is an essential way for buyers to show respect, appreciation, and love to sellers, because not all officers are 'qualified' to buy promotions; and (2) a buyer who successfully obtains promotion has a greater chance of recouping the investment and earning illegal profit from this higher rank (Former military officer B 2015; Former military officer P 2015).

Drawing 'both on connections they formed before entering military service and on a number of shared military experiences', military officers establish extensive guanxi networks with senior officers in order to achieve comparative advantage in the competition for promotion (Kaufman and Mackenzie 2009: 79). Take hometown ties, for example: hometown ties remain 'an important source of informal affiliation' for military officers, especially those of low and middle rank (Kaufman and Mackenzie 2009: 81). Sharing their affection for their hometown and speaking the local dialect enable military officers from the same place to develop strong bonds; moral obligations associated with personal ties encourage senior officers to distribute opportunities to their hometown ties regardless of regulations and social justice (Former military officer N 2015; Military officer H 2015; Former military officer K 2015; Military researcher E 2015).

To sum up, the buying and selling of positions in the Chinese military is a predictable outcome of institutional flaws, including the absence of wartime challenges, the failure of military training in selecting the best qualified officers, the concentration of power in personnel matters, and the lack of external monitoring. Fieldwork data suggests that selling military positions has become an important strategy for senior officers to earn corrupt benefits, and the strength of guanxi ties is a key factor in determining the ways in which promotion and appointment opportunities are allocated.

## Political–Business Alliances

Associating with businesspeople is another way for public officials to earn illicit profits (Li 2011b; Osburg 2013; Shieh 2005; Wedeman 2003; Zhan 2012). In contemporary China, public officials are affected by an increasing sense of relative deprivation. Public officials possess extensive power over the allocation of social and economic resources, but they receive low salaries. The discrepancy between social status and income is not only one of these officials' chief complaints but also a major incentive for corruption (Moses 2014; Sun 2004). Socializing with rich businesspeople generates anger and frustration among public officials. Corruption, as a process of transforming power into money, is one way for public officials to ameliorate their feeling of relative deprivation.

Transactive corruption between public officials and private actors, as Wedeman (2012a) observes, is the most common type of corrupt practice in contemporary China. The rise of transactive corruption is due to China's imperfect transition from a command economy to a market economy. Wedeman (2012a: 122) describes 'the reform process as commodification of state assets and their transfer from a system of allocation and assignment based on authority to a system of allocation based on markets', and 'commodifying public authority bribery creates a market for public authority in which corrupt officials sell their power and unofficial actors buy public power'.

Moreover, the formation of corrupt networks of party elites and prominent entrepreneurs can be viewed as a response to political uncertainties in China. 'The volatility of Chinese politics', as Guo (2001: 70) argues, 'encouraged the political elite to rely on personal relationships to get things done and promoted a culture of mutual dependence and moral obligation among the elite and between the elite and their subordinates'. By dividing themselves into different factions, political elites in China protect each other in such an uncertain political environment and cooperate to safeguard their common interests including promotion and profit (Broadhurst and Wang 2014; Keliher and Wu 2016).

During the past two decades, China has witnessed the emergence of corrupt *guanxi* networks between public officials and businesses (Shieh 2005; Zhan 2012). These corrupt networks function as 'underground societies' or 'secret clubs' offering a safe and efficient



platform for public officials and businesspeople to ‘collaborate’ with each other. Despite the fact that the information concerning exchanges in corrupt guanxi networks is not available to outsiders, China’s recent anti-corruption campaign discloses valuable details for researchers investigating how guanxi members in corrupt networks exchange with each other. The study of the Xishan Society offers insights into how a corrupt network facilitates illicit exchanges within the public sector and between the public and private sectors.

### *The Xishan Society*

The Xishan Society, established in 2007, was an informal group and a corrupt guanxi network destroyed by Xi Jinping’s anti-corruption campaign. It consisted of high-ranking government officials and wealthy businesspeople, all of whom had connections<sup>2</sup> with Shanxi province (Luo 2015). The ‘dragonhead’ of this group was Ling Jihua, who served as the director of the General Office of the CCP and a top aide to former Chinese President Hu Jintao (Tian and Luo 2015). The head of the powerful General Office was a very important position, controlling the administrative affairs of the Central Committee and its Politburo Standing Committee (Levin 2015). More specifically, Ling Jihua served as former President Hu Jintao’s ‘eyes, ears and brain’, collecting and classifying party information, circulating leaders’ instructions and internal memos, supervising or monitoring tasks set by the Central Committee, coordinating working and interpersonal networks among party elites, and preparing major meetings (Cheng and White 1998; Lollar and Hamilton 2010). The close connection with top party leaders and the extensive power granted by the position made Ling Jihua a rising star who would have been promoted to the elite Politburo Standing Committee at the 18th Party Congress in 2012.

The corrupt network established by Ling Jihua provided protection and career advancement opportunities for its members. Journalist Luo Changping, in his book *Datieji (To Fight Against Liu Tienan)*, disclosed that Liu Tienan, who was a key member of the Xishan Society and former deputy chairman of the National Development and Reform Commission, had used his close

<sup>2</sup> The connection with Shanxi province was established mainly in two ways: some originated in Shanxi province and others used to work there.

guanxi ties with Ling Jihua to gain his promotions (Luo 2015). Furthermore, the fast promotion of Ling Zhengce, the elder brother of Ling Jihua, was also due to Ling Jihua's enormous influence in Shanxi province. As Fewsmith (2015: 7) points out:

... in the period [from 1997 to 2000] when Ling Zhengce was being promoted to deputy department head and then to deputy minister level, his younger brother, Ling Jihua, was rising quickly in Beijing. It was in 1995 that Ling Jihua was promoted to the General Office and then in 1999 he became deputy head of that office. It is not hard to imagine that this connection influenced Ling Zhengce's career in Shanxi.

On behalf of his brother, Ling Zhengce managed to build a power base in Shanxi province: a network of top politicians in the province called the Shanxi Gang (Zhai 2014). Ling Zhengce became an intermediary who introduced top government officials in Shanxi province to Ling Jihua and helped them gain membership of the Xishan Society. The incentive for these government officials to join these informal networks was to obtain 'the shade of the great tree' (*dashu dixia hao chengliang*): protection that is only granted to officials who have links to top officials in Beijing (Bloomberg 2014). As journalists and researchers in both China and abroad believe, Ling Jihua's concealment of the wrongdoing of senior officials in coal-rich Shanxi province contributed to the rise of a corrupt coal-fuelled economy and led to rampant under-the-table deals between government officials and coal mine owners (Li 2014). Although information about how Ling Jihua protected these government officials' illicit dealings with mine owners was not in the public domain, the collapse of the Shanxi Gang revealed that all the key members who faced corruption charges had close ties with Ling Jihua and Ling Zhengce, including Jin Daoming (former deputy party chief of Shanxi province and former vice-chairman of the Shanxi People's Congress), Du Shanxue (former vice-governor of Shanxi province), Chen Chuanping (former party chief of provincial capital Taiyuan), Nie Chunyu (former secretary-general of the provincial party committee), and Bai Yun (former head of the united front work department of Shanxi province) (Li 2014).

It can be argued that allocating promotion opportunities to society members and concealing their wrongdoings were key strategies adopted by Ling Jihua to create group cohesion, cultivate members' loyalty to him, and strengthen the society's influence in the political system. The establishment of such a political faction, also

called the ‘mountaintop’ (*shantou*) of the power, was perceived by Ling Jihua as an important way to realize his political ambition. In 2012, Ling Jihua organized three secret meetings for society members in order to gain support for his candidacy as one of the top leaders in China. Some non-members were also invited in order to obtain wider political support (Tian and Luo 2015). This campaign for votes angered Xi Jinping, who perceived Ling Jihua and his followers as a serious threat. This explains why Xi Jinping’s nationwide anti-corruption campaign targeted Ling Jihua and his Xishan Society. In July 2015, Ling Jihua was expelled from the party and arrested on corruption charges (Levin 2015).

### *Corrupt business–politics nexus*

Corrupt guanxi networks provide opportunities for members of both political and business elites to accumulate wealth and obtain protection. Through exchanging with private actors, public officials manage to transform power into money, which then enables them to gain promotions by further exchanges on the guanxi network. Being a member of a powerful corrupt guanxi network helps businesspeople access state resources and obtain government privileges (Osburg 2013; Zhan 2012). The disclosure of information about corrupt exchanges between two members of the Xishan Society—former Railways Minister Liu Zhijun and billionaire Ding Shumiao—reveals how the business–politics nexus emerges and the ways in which it functions.

Beginning his career as a low-level worker at the Ministry of Railways, Liu Zhijun was promoted to Railways Minister in 2003. He was perceived by the public as ‘a driving force behind the modernisation of China’s rail system, a project that included building 10,000 miles of high-speed rail track by 2020—with a budget of £170bn, one of the most expensive engineering feats in recent history’ (Kaiman 2013: online). The development of China’s modern rail system, however, was accompanied by the rise of rampant corruption in the Ministry of Railways. The review of published materials suggested that the concentration of power in decision-making and the lack of effective checks and balances gave rise to serious corruption. As Zhu and Wu (2015: 70) argue,

The railway system is highly isolated from other systems; it has its own supervisory departments, justice departments, and large-scale state-owned construction companies ... This closed system makes power in the railway

system even more concentrated than in many other functional systems in China, such that the selection of construction contractors and material suppliers was essentially determined by the leaders.

The concentration of power in the railway system and the emphasis on the goal of fast development led to ignorance of the means of achieving the goal. As a result, tender procedures behind railway projects, like the selection of construction contractors and material suppliers, were manipulated by ministry leaders and entrepreneurs who had close ties with these leaders. These manipulators adopted a number of strategies for intervening in the tender process. For example, they would announce the tender with a tight deadline, while the entrepreneur who was in leaders' *guanxi* networks was informed well in advance and thus had enough time to prepare tender documents. Evan Osnos, a journalist from *The New Yorker*, published an investigation into corrupt practices in relation to China's high-speed railway, pointing out that 'in some cases, the bidding period was truncated from five days to thirteen hours' (Osnos 2014: 242). Other measures used by ministry leaders to interfere with the bidding process, as Osnos suggests, included specifying the criteria for pre-qualification and allowing construction to begin before the tender was formally held.

The information provided by the anti-corruption campaign showed that the Boyou investment management company owned by Ding Shumiao—a businesswoman who was a key member in Liu Zhijun's *guanxi* networks—was a major equipment supplier for China's high-speed trains. With the support from Liu Zhijun, Ding also became a key intermediary who helped twenty-three firms 'coordinate relationships up and down the railway chain' and enabled them to obtain fifty-seven railway construction contracts worth about 186 billion RMB (Zhou 2014; Zhu and Wu 2015: 71). Ding earned around two billion RMB commission from these corrupt exchanges (Zhou 2014).

Being a key member of Liu Zhijun's corrupt networks, Ding was an 'enforcer' or 'financier' who was responsible for removing career obstacles for Liu. In 2007, He Hongda, Liu Zhijun's subordinate and former head of the Political Department of the Ministry of Railways, was convicted of embezzlement and bribery. Under the instruction of Liu Zhijun, Ding Shumiao spent 44 million RMB helping He Hongda reduce his sentence length and preventing information about corrupt transactions between He and Liu from being made public (Chen 2013). Furthermore, the train collision

near the city of Zibo in Shandong province in 2008, which resulted in seventy-two dead and 416 injured, had a negative effect on Liu Zhijun's career advancement. Liu Zhijun then decided to change jobs and become party chief of a province, a job that would function as a springboard for further promotion. In order to enable Liu Zhijun to obtain this position and help Liu's aide be promoted to Railway Minister, Ding Shumiao paid 5 million RMB to intermediaries who promised to bribe top politicians who had the power to intervene in personnel matters (Ning 2013). Even though the money was spent, Ding Shumiao failed to help Liu Zhijun realize his plan because intermediaries ate their words.

The 2008 financial crisis, however, seemed to bring new opportunities to Liu Zhijun. In order to respond to the financial crisis and stimulate economic growth, the Chinese government decided to accelerate the pace of building the high-speed rail network. Liu Zhijun thought the modernization of China's rail system under his leadership would help him bargain for higher-ranking jobs. In 2011, Liu Zhijun wanted to use two billion RMB provided by Ding Shumiao to buy a position such as state councillor or vice-premier (Osno 2014). But the 'Wenzhou accident', in which two high-speed trains collided in the city of Wenzhou, Zhejiang province, led to a special investigation into corruption in the Ministry of Railways, which in turn led to the end of Liu Zhijun's political career.

To sum up, both private and public actors have incentives to join corrupt *guanxi* networks in order to obtain protection, promotion, and business opportunities. Exchanging favours with politicians enables businesspeople to accumulate their wealth; in turn, these businesspeople act as 'financiers' or 'enforcers' to help these politicians obtain higher positions. Moreover, the study of the Xishan Society suggests that establishing 'mountaintops' of power in the CCP is a predictable response to China's political uncertainties. Top politicians are encouraged to join these mountaintops in order to seek protection and promotion.

### **The Role of Guanxi in Facilitating Corrupt Transactions**

Over the past three decades, China has witnessed a significant increase in the number of corrupt transactions between official and unofficial actors (Gong 2002; Wedeman 2003). The illegal nature of these transactions prevents sellers of corrupt benefits from

marketing their ‘services’ openly and stops exchange partners accessing the formal legal system. As a consequence, exchange partners face higher transaction costs—including screening potential partners and enforcing agreements—compared with transactions in legal markets. Three stages of corrupt deals, as Lambsdorff (2002: 223) observes, lead to an increase in transaction costs:

First, to initiate a contract necessary information with respect to the required service and the appropriate partner must be gathered and contracts specified ... Second, since the proceeds cannot be collected at the moment when resources are committed, strategies must be developed to enforce contracts and avoid opportunism ... Third, after finalizing the exchange, corrupt agreements differ from legal contracts because the partners have placed themselves at the mercy of the other.

Guanxi-based corrupt practices solve the problem of high transaction costs by promoting cooperation and deterring opportunism. Guanxi networks can be viewed as clubs that ‘guarantee their members the enforceability of available property rights in an environment of institutional disorder’ (Schramm and Taube 2004: 184). In order to recruit loyal members, corrupt public officials and business elites tend to make use of guanxi bases (e.g. the same hometown, classmates, and colleagues) to develop corrupt guanxi networks. For example, fieldwork data reveals that senior military officers tend to give promotion opportunities to subordinates with whom they have hometown ties. The study of the Xishan Society also suggests that guanxi bases contribute to the creation of corrupt political–business alliances. Guanxi bases are important for initiating and maintaining guanxi networks because individuals who have shared experiences, enjoy commonalities in knowledge, or adopt similar modes of communication are more likely to create emotional bonds (*ganqing*) and strengthen their sense of belonging to the network.

The corrupt guanxi network provides illicit benefits—many are club goods—that guanxi members cannot obtain outside the network. Corrupt benefits (e.g. career advancement and monetary success) achieved through exchanges with each other are important types of club goods. Corrupt officials and business elites make use of guanxi ties to deal with three major problems: communication, enforcement, and the risk of punishment (see Li 2011b; Zhan 2012). First, guanxi networks enable seekers of corrupt benefits to gain privileged information. Guanxi networks offer information

that is not available in the public domain, facilitating help seekers to identify potential suppliers and assess their credibility and trustworthiness (Wang 2016). Meanwhile, secret channels provided by guanxi networks enable sellers of corrupt benefits to market their 'services' to guanxi insiders (Li 2011b; Wang 2016; Zhan 2012). In this case, guanxi networks solve the problem of information transmission.

Second, a network of reciprocal obligation and indebtedness created through frequent exchanges of favours is a constraining power that holds exchange partners to their word (Barbalet 2015). Partners involved in corrupt deals have to face the risk of opportunistic behaviours (e.g. lying and cheating) because people are largely self-interested. Corrupt transactions within guanxi networks can solve the problem of opportunism because being a member of a corrupt guanxi network requires a large investment of time and money to build and maintain guanxi ties with other members. Guanxi practitioners tend to maximize their profit by frequently cooperating and exchanging with others, whereas committing opportunistic acts means risking their investment. The punishment for opportunistic behaviours is very severe. As Standifird and Marshall (2000) argue, an opportunistic behaviour may lead to the loss of exchange opportunities with all guanxi members. In addition, effective communication among members in these networks leads to near-certainty of punishment, the threat of which works to deter behaviour that is privately beneficial but harmful to the network.

Moreover, buyers and sellers of corrupt benefits employ guanxi networks to reduce the risk of being detected and punished. China's anti-corruption agencies, such as the Central Commission for Discipline Inspection (CCDI), face a number of challenges from the widespread existence of corrupt guanxi networks. The first challenge is the difficulty of gathering accurate information. Corrupt officials employ guanxi ties to transmit information among guanxi insiders, but this prevents guanxi outsiders (e.g. anti-corruption investigators) from capturing the information. The second challenge is that the complexity of guanxi-based corrupt exchanges frustrates China's anti-corruption efforts. The exchange of money and power does not take place at the same time, and senior officials sometimes distribute promotion and business opportunities to those who are close to them in guanxi networks in exchange for an unspecified return of the favour at some point. This makes corrupt exchanges hidden from investigators' eyes.

Corrupt public officials and businesspeople are bound together for good or ill through *guanxi* ties. China's latest anti-corruption campaign shows that an investigation of a senior public official usually leads to a wider investigation of his or her *guanxi* insiders (e.g. officials and businesspeople). The threat posed by anti-corruption initiatives compels *guanxi* members to band together to safeguard their club goods, and members tend to employ all kinds of resources (e.g. *guanxi* ties and administrative power) to influence the decision-making process of anti-corruption agencies.

To sum up, *guanxi*-based corrupt transactions solve the problem of high transaction costs by creating a reward and punishment scheme. Illicit benefits associated with transactions encourage *guanxi* members to cooperate with each other, while the high probability of punishment reduces opportunistic behaviour. Furthermore, *guanxi*-based exchanges of power and money bring significant challenges to China's anti-corruption efforts. Corrupt *guanxi* networks prevent investigators from efficiently collecting information and disable them from making a connection between payment and the return of the favour.

## Conclusion

This chapter investigates the ways in which corrupt public officials, identified as the Red Mafia in this book, make use of *guanxi* networks to achieve illicit profits by selling public positions and business opportunities. Gambetta (1993) and Varese (2001) argue that mafia families in Sicily are major suppliers of private protection and quasi law enforcement. In contrast, this book identifies corrupt public officials as an important type of protector in contemporary China. The term 'protection' here equates with 'corrupt benefits' including obtaining privileged information, escaping punishment for wrongdoing, achieving career advancement or business opportunities through abusing public office, violating the rule of law, and breaking the arm's length principle.

This chapter contributes to understanding the role of *guanxi* practice in facilitating corrupt transactions by examining office-selling in the military and the political-business nexus between official and unofficial actors. An analysis of the two forms of corrupt practice suggests that *guanxi* networks, functioning as a protection and enforcement mechanism, have been widely used by sellers and buyers of corrupt benefits. Corrupt benefits (club goods) promote



internal cooperation, while the combination of a high probability of punishment and a high severity of punishment effectively prevents opportunistic behaviour. Corrupt guanxi networks represent a major stumbling-block to China's anti-corruption initiatives. This is not simply because guanxi-based transactions are hidden, non-simultaneous, and complex, but also because guanxi networks consisting of top officials and billionaires have the power to discredit China's anti-corruption efforts.

## 6

# The Red–Black Collusion

Guanxi facilitates corrupt transactions within and between public and private sectors, resulting in collective corruption within political establishments and the rise of state-illegal protectors—the Red Mafia. As a collective term, the Red Mafia is used by this book to refer to corrupt public officials: the major supplier of extra-legal protection in China. Corrupt public officials are involved in at least one of the following activities: (1) selling unlawful protection or transacting illicit benefits within the public sector (e.g. selling public appointments and sheltering other officials' wrongdoing); (2) creating mutually beneficial networks with legitimate private actors, such as engaging in rent-seeking activities; (3) distributing corrupt benefits to or supplying protection to illegal private actors; this might include safeguarding criminal groups and illicit entrepreneurs, enabling them to escape punishment, and wiping clean their criminal records. Chapter 5 examines the first two forms of corrupt practice and explores the role of guanxi in building the political–business nexus and facilitating the buying and selling of public offices. This chapter therefore focuses specifically on the collusion between public officials and gangsters.

It has been widely acknowledged that the study of the political–criminal nexus between public officials and gangsters suffers from a lack of comprehensive statistical information because police records and court files about corruption cases are not available to the public in China (Guo 2008). Corruption cases revealed by the Chongqing crime crackdown seem different because part of the information about organized crime and police corruption has been disclosed by the mass media. Published materials as well as fieldwork data about the Chongqing crime crackdown not only provides a good opportunity to examine the corruption-facilitating and corruption-masking roles of guanxi (practice), but also offers a vivid picture about how locally based gangsters create mutually beneficial links with police officers. The principle of reciprocity and

the importance of maintaining *mianzi* (face) in the guanxi network encourage high-ranking police officers to distribute promotions and opportunities to those close to them in the network, facilitating the rise of illegal job markets (e.g. the buying and selling of public offices). Mid- and low-level police officers therefore tend to create close ties with senior officers to obtain promotions; they also obtain illegal benefits through associating with locally based gang bosses.

The remainder of this chapter is structured as follows: firstly, it offers a general description of the crime crackdown (also called ‘strike black’) campaign in Chongqing. Secondly, it focuses on the buying and selling of public offices in Chongqing, and explores how relational power stemming from guanxi networks determines the way in which promotions and opportunities are distributed. It then examines the relationship between organized crime and police corruption by discussing the most widely-publicized case uncovered by the Chongqing crime crackdown: the Wen Qiang case. It suggests a typology of organized crime in Chongqing, examines how organized crime groups adopt a three-stage guanxi building (i.e. initiating, building, and using) to develop mutually beneficial networks with police officers, and explains why police protection becomes necessary for locally based criminal groups.

Investigating the dark side of guanxi is essential for understanding corruption and organized crime in contemporary China. This chapter suggests that key norms of guanxi including reciprocity, *mianzi* (face), *renqing* (favour or obligation), and *ganqing* (affection or sentiment) encourage profit-seeking government officials to conduct corrupt transactions with their guanxi members. What is worse, guanxi norms even force honest public officials to break the rule of law and supply unlawful benefits to those close to them in the guanxi network because a violation of the principle of guanxi will cause serious negative repercussions on the reputation of the violator.

## The Chongqing Crime Crackdown

Chongqing is a major city in southwest China and one of China’s four directly-controlled municipalities (the other three are Beijing, Shanghai, and Tianjin). Like much of the rest of China, Chongqing’s wealth has grown suddenly and dramatically. The increase in wealth has also prompted the return of gangs (Moore 2009). One point emphasized by most interviewees and a few news

reports is that ‘Chongqing is far from alone in suffering from organized crime, but has gone further than most cities in tackling it’ (Watts 2009: online). Provinces in mainland China, like Yunnan and Guangxi, are suffering from more serious organized crime than Chongqing, but these municipal governments lack the capability of cracking down on these serious organized crime groups (Focus group discussion A 2011; Journalist A 2011; Journalist D 2011).

The man behind Chongqing’s strike black campaign was its party chief, Bo Xilai. *New York Times* journalist Austin Ramzy characterized Bo as ‘an ambitious outsider whose lack of local ties had given him a free hand to pursue his clean-up campaign’ (Ramzy 2010: online). Without Bo’s considerable political confidence,<sup>1</sup> it would have been extremely difficult for the Chongqing Municipal Government to launch the war on organized crime.

According to interview data and reports in state-controlled newspapers, such as *China Daily*, organized criminal groups in Chongqing were involved in a wide variety of businesses, from the traditional areas of gambling, prostitution, debt collection, protection, and drug dealing, to the legitimate businesses of the wholesale seafood trade, private bus networks, and nightclubs (Economist 2009; Moore 2009; Xinhua 2010h). The sums of money involved were huge. To take just one example, loan sharking: *China Daily* estimated that ‘the money lent by gangs at exorbitant interest rates [in 2008] crossed 20 billion RMB (\$4.4 billion) or a third of the city’s fiscal income’ (He 2009b: online).

The biggest crackdown on Chongqing’s gangsters and their colluding officials aroused particular attention because ‘it was directed, unusually, at the kind of people who count: the wealthy businessmen and powerful officials who controlled the gangs and enabled them to flourish’ (Economist 2009: online). From June 2009, when Chongqing’s crime crackdown campaign began, to March 2010, a total of 3,348 suspects were arrested. More than fifty public officials were arrested for allegedly acting as protective umbrellas for local organized criminal groups: fourteen of these were former high-ranking officials including Wen Qiang, Chongqing’s former director of the municipality’s justice bureau and deputy police

<sup>1</sup> Bo Xilai was a member of the Politburo of the Communist Party of China. He made no secret of his desire to enter the Politburo Standing Committee but was expelled from the Chinese Communist Party in September 2012 for corruption and the abuse of power. For more details, please see: (FlorCruz 2012).

chief, and Peng Changjian, deputy chief of the Chongqing Public Security Bureau (Huang 2010).

Chongqing's massive crackdown shows that the buying and selling of offices is widespread in many cities in China. It also illustrates that the collusion between organized crime groups and public sector officials has become a serious problem threatening the legitimacy of the Chinese Communist Party. The protection offered by corrupt police officers is the most important factor for the resurgence of organized crime groups. A thorough analysis of the most famous corruption case uncovered by the Chongqing crime crackdown—the Wen Qiang case—offers a clear picture about how *guanxi* practice distorts China's legal system and how it enables locally based criminal groups to create corrupt networks with local police officers.

### **The Buying and Selling of Public Offices**

The promotion of public officials, as Chapter 5 argues, has been largely influenced by the unwritten rule, namely the practice of *guanxi* (see also Warren et al. 2004). This phenomenon is mainly caused by the weak political and legal system which fails to clearly specify criteria for the distribution of public offices and to strictly enforce those criteria. The principle of reciprocity and the essence of maintaining face in *guanxi* practice, as Zhan (2012: 103) demonstrates, 'encourages local officials to distribute promotions and opportunities to those closer to them in the network'. Moreover, the importance of *guanxi* forces individuals (lesser cadres and ordinary citizens) to cultivate relationships with those in power.

In departure from most crime crackdown campaigns conducted by local governments, the Chongqing crime crackdown resulted in the end of numerous corrupt networks, especially within law enforcement agencies, and the reshuffle of at least 3,000 police officers in order to cut their links with organized crime groups (Wang and Ma 2010). The most influential network destroyed by this crime crackdown was within the Chongqing Public Security Bureau headed by Wen Qiang, who served as the deputy head of the Chongqing Public Security Bureau from 1992 to 2008 and as director of the Chongqing Justice Bureau from July 2008 to August 2009.

Wen Qiang was described by most interviewees as a trustworthy person (Journalist A 2011; Journalist D 2011). He regarded 'the

rule of *ganqing* (emotional affection)' in *guanxi* practice as being much more important than the rule of law (Prosecutor A 2011; Prosecutor B 2011). As Journalist A (2012) says:

Wen Qiang was born in Ba'nán District, Chongqing. Chongqing has long been a water transportation hub on the upper reaches of the Yangtze River. The dock culture [sworn brotherhood culture] is one of the most distinctive cultures in Chongqing. Influenced by traditional Chongqing culture, Wen became obsessed with *mianzi* [face] and *yiqi* [righteousness]. Middle or lower levels of police officers who were familiar with Wen always called him 'Qiang Ge' (Elder Brother Qiang). Wen had great desire to main his *mianzi*/prestige. As a result, he often made decisions based on codes of brotherhood rather the rule of law.

From Wen's perspective, the provision of assistance for promotions of middle and lower levels of police officers within his *guanxi* networks was normal and even necessary, but transactions between Wen and his subordinates were clearly defined as corruption from a legal perspective. Unlike the legal market, in which the price determines transactions between sellers and buyers, transactions in the market of buying and selling offices were determined by interpersonal relationships between the holders and receivers of the benefits (Schramm and Taube 2003a; Zhan 2012). In other words, Wen may feel obliged to favour the people in his network rather than outsiders, to favour those closer to him over the others farther away in his network.

In order to secure promotions or gain better job opportunities, many mid- and low-level police officers in Chongqing had to invest in establishing and maintaining a close relationship with Wen. Moreover, people who were not members of Wen's *guanxi* network tended to employ a middleman—a linking person who brings a buyer and seller from different networks together—to facilitate corrupt transactions (Zhao et al. 2011). Wen Qiang, as the main supplier of offices, was convicted of providing assistance for more than twenty police officers to gain promotion and police candidates to secure places (See Table 6.1).

In the Chongqing case, relational power stemming from *guanxi* networks enables Wen's subordinates to obtain promotions. As Shang et al. (2012) argue, relational power can be divided into two subcategories: direct and indirect. Direct relational power can be further divided into *ganqing* (affection)-based relational power and *renqing* (felt-obligation)-based relational power.

**Table 6.1 Offices for Sale in Chongqing<sup>2</sup>**

| Objective of Buying Offices   | Office Buyer <sup>3</sup>      | Middleman    | Office Seller | Amount of Money Transacted |
|---|--------------------------------|--------------|---------------|----------------------------|
| Same-level transfer to a better job   | Wu XX                          | Chen Wanqing | Wen Qiang     | ¥1,190,000                 |
| Secure a place in the Chongqing Public Security Bureau                                    | Geng XX                        | Chen Wulin   | Wen Qiang     | ¥150,000                   |
| Promotion   | Luo Li                         | N/A          | Wen Qiang     | ¥400,000                   |
| Promotion   | Ran Congjian                   | Chen Wanqing | Wen Qiang     | ¥500,000                   |
| Same-level transfer to a better job or secure a position for demobilized military officer | Zhang XX<br>Chen XX<br>Yuan XX | Zhou Hongmei | Wen Qiang     | ¥1,590,000                 |
| Promotion   | Xie Gang                       | N/A          | Wen Qiang     | ¥126,000                   |
| Promotion & maintaining positions   | Zhao Liming                    | N/A          | Wen Qiang     | ¥270,000                   |
| Promotion   | Li XX                          | N/A          | Wen Qiang     | ¥49,000                    |
| Same-level transfer to a better job   | X XX                           | Zhou Hongwei | Wen Qiang     | ¥1,770,000                 |
| Promotion   | Huang Daiqiang                 | N/A          | Wen Qiang     | ¥95,000                    |
| Promotion & same-level transfer to a better job   | Wang Daoshou                   | N/A          | Wen Qiang     | ¥155,000                   |
| Promotion   | Chen Tao                       | N/A          | Wen Qiang     | ¥60,000                    |
| Promotion & same-level transfer to a better job   | Xu Qiang                       | N/A          | Wen Qiang     | ¥370,000                   |
| Same-level transfer to a better job   | Chen XX                        | N/A          | Wen Qiang     | ¥30,000                    |
| Promotion   | Zhou XX                        | Du Guangde   | Wen Qiang     | ¥200,000                   |

<sup>2</sup> This table is designed by the author according to information from news reports released by Xinhua News Agency, the official press agency of the People's Republic of China.

<sup>3</sup> The Chongqing government has not disclosed all the names of 'office buyers', so this paper uses 'XX' to fill in the missing parts.

In an affection-based relationship, ‘the leader and his/her follower socialize outside work, discuss personal problems and exchange advice on personal issues’ (Jiang et al. 2012; Shang et al. 2012: 440). For example, Huang Daiqiang, Zhao Liming, and Chen Tao, three mid-ranking police officers, were Wen’s ‘personal bodyguards’ when Wen enjoyed himself in nightclubs. This provided excellent opportunities for these police officers to share their personal problems and issues with their leader. Affection-based relationships therefore encouraged Wen to distribute corrupt benefits (e.g. promotion opportunities) to his loyal followers (Xinhua 2010e).

Chen and Chen (2004: 316) argue that socially expressive activities, such as celebration parties for marriages, birthdays, and promotions, have a great impact on ‘affective trust and *ganqing*’. This is because celebrations provide good opportunities for lower-ranking officials to express their good wishes and greetings to their leaders. The Wen Qiang case shows that the Spring Festival (the Chinese New Year), Mid-Autumn Festival, birthdays, and occasions when Wen went abroad on official business provided excellent gift-giving opportunities for low- and mid-level police officers and local businesses to send ‘*Hongbao*’—red envelopes containing money or shopping cards—to Wen Qiang (Keyuan 2000; Li 2012). As Bracey (1992) states, gifts are converted into reciprocity, making the recipient indebted to the giver. The only thing that Wen had to give in return was misuse of power or authority, which was also the only thing in which these bribers were interested.

Obligation-based relational power is generated from the exchange of emotional feelings (e.g. work-related problems and issues) between the leader and his or her subordinates (Shang et al. 2012). Social and economic transactions create a sense of indebtedness, resulting in a felt-obligation-based relationship between two parties (Vanhonacker 2004). For example, Peng Changjian and Wen Qiang, two police chiefs, developed a very close working relationship because they had worked together for many years. It would have been difficult for Wen to establish himself as an anti-crime hero without the assistance of Peng. In September 2000, with Peng’s significant contribution, Wen successfully destroyed the Zhang Jun criminal syndicate and made himself China’s most reputable police officer (Ifeng 2010;



Lu 2010). Wen rewarded Peng by promoting him from lowly officer all the way to police chief.

In practice, it is extremely difficult to distinguish *ganqing*-based relationships from *renqing*-based relationships. In most corruption cases, these two types of relationship are simply mixed together. As Jiang et al. (2012: 209) argue:

Guanxi based on kinship usually starts from *ganqing* while other kinds of guanxi typically start from *renqing*. However, as time passes, both kinds of guanxi contain both *ganqing* and *renqing* components. The only distinction is the proportions of *ganqing* and *renqing* in guanxi. For example, business guanxi usually has less *ganqing* elements than other guanxi.

Indirect relational power, also called network-based relational power, facilitates people who did not possess a direct guanxi relationship with Wen to receive corrupt benefits in Wen's guanxi networks. As Shang et al. (2012) argue, this type of relational power is based on *mianzi* (face). A middleman (A) possesses the ability not only to bring the provider (B) and seeker (C) of corrupt benefits together, but also to make B feel obligated to C. The relationship between A and B indirectly affects the outcome of the request made by C.

As Table 6.1 shows, Chen Wanqing was frequently invited to act as middleman when the help seeker was not a member of Wen Qiang's guanxi networks. Chen was a billionaire in Chongqing. Since 2000, Chen had created and maintained good guanxi with Wen through continuous gift-giving on three types of occasion: special celebrations (e.g. birthdays), traditional Chinese festivals (e.g. Spring Festival), and returning from a long distance trip (Li 2010). Norms of reciprocity in guanxi networks made Wen reluctant to say 'no' to Chen's requests. If a favour request was not granted as expected, guanxi quality would be negatively affected and Wen's reputation in guanxi networks would be seriously damaged. As a result, people who did not possess guanxi with Wen tended to find a middleman to gain job transfers within the Chongqing police system.

The buying and selling of public offices in Chongqing illustrates the importance of relational power in the distribution of government appointments. Guanxi practice in contemporary China exerts corrosive effects on the legal system. The Chongqing crime crackdown was followed by the reshuffle of mid- and high-ranking police officers in order to break corrupt guanxi networks within

the police system and cut mutually beneficial links between police officials and criminals (Liu and Li 2010).

## Organized Crime in Chongqing

The establishment of a close *guanxi* with high-ranking officials not only enables low- and mid-level police officers to gain promotions or transfers, but also safeguards their businesses with criminals. Unlike corrupt high-ranking government officials who make large amounts of money by selling government appointments or associating with legitimate businessmen, mid- or lower-level police officers who want to earn such benefits have to associate with locally based criminals or illegal entrepreneurs who are also eager to establish close *guanxi* networks with law enforcers (Chin and Godson 2006). Moreover, mid- or lower-level police officers are willing to create friendly *guanxi* networks with illicit entrepreneurs who have close interpersonal connections with senior police officers. As a police officer argues:

If a gang boss is a good friend of a police chief, lower level police officers would want to cultivate *guanxi* with this gang boss by providing internal information and business opportunities. This is an efficient way to get involved in the *guanxi* network led by senior officials, creating good opportunities to gain promotions. (Focus group discussion A 2011)

According to Antonopoulos (2013), the corrupt network between the criminal underworld and the political establishment can be created either through clientelistic relationships or bribery in the form of money, expensive gifts and/or services, and sex services, or through interpersonal, family *guanxi* links. Both fieldwork data and extensive published materials suggest that police officers in Wen Qiang's corrupt *guanxi* network were largely involved in offering protection for locally based criminal groups.

As Table 6.2 shows, Wen Qiang's black empire consisted of three tiers. Wen, the 'godfather' of Chongqing's criminal underworld, and his right-hand man, Peng Changjian, former deputy chief of the Chongqing Public Security Bureau, sat on the top; the middle level consisted of Wen's six 'heavenly guardians', who were mid-level police officers in Chongqing; and on the bottom were eight criminal organizations, which controlled the production and distribution of unlawful commodities and services in Chongqing. Before the exploration of the ways in which the political-criminal nexus

**Table 6.2 The most influential political–criminal nexus in Chongqing headed by Wen Qiang<sup>4</sup>**

**Wen Qiang:**

He served as the deputy head of the Chongqing Public Security Bureau from 1992 to 2008 and as director of the Chongqing Justice Bureau from July 2008 to August 2009.

Wen was found guilty of:

- Taking more than 12 million RMB in bribes to facilitate more than 20 officers to gain promotions or transfers; to help businessmen obtain illegal profits; and to provide protection to locally based organized crime groups. Of these bribes, 756,500 RMB came from gang members.
- Failing to explain the source of assets worth 10.44 million RMB.
- Raping a university student in August 2007.

**Wen's right-hand man**

**Peng Changjian**

Peng served as former deputy chief of the Chongqing Public Security Bureau, was reportedly a close ally of Wen Qiang.

Peng was found guilty of:

- Taking 4.71 million RMB in bribes from 1998 to 2009, of which over 1.4 million RMB was offered by three gang bosses, Wang Xiaojun, Ma Dang, and Yue Ning.
- Failing to explain the source of assets worth 4.67 million RMB.

**Six 'heavenly guardians' of Wen's black empire**

**Huang Daiqiang**

- Former deputy head of Chongqing's criminal investigation division (2003–2009).
- Bribed Wen with 90,000 RMB and an Omega watch between 2004 and 2008.

**Luo Li**

- Deputy head of the city's drug control department (2005–2008).
- Bribed Wen with 400,000 RMB between 2005 and 2008.

**Zhao Liming**

- Deputy head of the city's public transport security police division (2000–2009).
- Bribed Wen with 270,000 RMB between 2000 and 2008.

**Chen Tao**

- Deputy head of the city's public security police division (2007–2009).
- Bribed Wen with 60,000 RMB between 2004 and 2008.

**Xu Qiang**

- Director of the Dianjiang County Public Security Bureau in Chongqing (2007–2009).
- Bribed Wen with 370,000 RMB between 2004 and 2008.

**Su Tao**

- Deputy head of Jiangbei district sub-bureau of the Chongqing Public Security Bureau (2006–2009).
- Bribed Wen to obtain promotion. The specific information of Su's bribery is not in the public domain.

<sup>4</sup> This table is designed by the author. All the information in this table is from relevant news reports released by Xinhua News Agency from June 2009 to February 2012.

## Eight locally based criminal organizations which controlled Chongqing's illegal markets

### Wang Tianlun's Gang

- **Businesses:** Monopolizing the hog slaughtering and pork markets through threats and violence.
- **Main protectors:** Wen Qiang and Huang Daiqiang
- **Length of activity:** 13 years
- **Size:** 23 members
- **Active since:** 1996

### Wang Xiaojun's Gang

- **Businesses:** Gambling and prostitution.
- **Main protectors:** Wen Qiang, Peng Changjian, Su Tao, and Li Hanbing
- **Length of activity:** 8 years
- **Size:** 24 members
- **Active since:** 2001

### Xie Caiping's Gang

- **Business:** Gambling
- **Main protectors:** Wen Qiang, Peng Changjian, and Zhao Liming
- **Length of activity:** 5 years
- **Size:** 22 members
- **Active since:** 2004

### Wang Sisters' Gang (Wang Ziqi and Wang Wanning's Gang)

- **Business:** Prostitution.
- **Main protector:** Chen Tao
- **Length of activity:** 15 years
- **Size:** over 20 members
- **Active since:** 1994

### Chen Mingliang's Gang

- **Businesses:** Prostitution, dispute resolution, gambling, and drug trafficking.
- **Main protectors:** Wen Qiang, Luo Li, and Peng Changjian
- **Length of activity:** 8 years
- **Size:** 34 members
- **Active since:** 2001

### Yue Ning's Gang

- **Business:** Prostitution.
- **Main protectors:** Wen Qiang, Peng Changjian, and Chen Tao
- **Length of activity:** 11 years
- **Size:** 31 members
- **Active since:** 1998

### Ao Xingman's Gang

- **Businesses:** Drug production and trafficking, and illegal sale of firearms.
- **Main protector:** Luo Li
- **Length of activity:** 13 years
- **Size:** 46 members
- **Active since:** 1996

### Fan Qihang and Gong Gangmo's Gang

- **Businesses:** Loan sharking, drug trafficking, and gambling.
  - **Main protectors:** Wen Qiang, Luo Dingjiang, Chen Tao, and Yang Zhi
  - **Length of activity:** 3 years
  - **Size:** 34 members
  - **Active since:** 2006
-

was created, this part aims to develop a typology of organized crime in Chongqing by examining these criminal organizations' structure and activities.

### Structure

This part analyses the structure of the eight organized crime groups under Wen's umbrella. Regarding organizational formations of organized crime in China, Xia (2008) suggests that 'the choice of appropriate organizational form by organized criminal groups is not simple and pure. The organized criminal groups have chosen organizational formations ranging from hierarchic (bureaucratic) structures to market mechanisms and to networks' (p. 22).

First, most crime groups in Chongqing adopted the *hierarchical structure* in order to effectively control their followers and manage their businesses. Hierarchical organization is a superior form for many criminal groups, especially those that mainly engaged in locally based criminal activities such as organizing prostitution, running gambling dens, and being involved in loan sharking (Chen 2005; Xia 2008).

For example, Chen Mingliang's gang was regarded as the biggest criminal syndicate in Chongqing's underworld (TimeWeekly 2009; Yi 2010). In common with the typical pyramid structure, there were a variety of ranks and positions within the syndicate. Chen Mingliang was the 'dragonhead'. Lei Deming, an influential underworld figure, was a 'military commander' overseeing defensive and offensive operations. Ma Dang was a financial officer and head of public relations for Chen's group, taking charge of developing relationships with government officials. Key members actively participated in Chen's legal and illegal businesses. The lowest rank consisted of dozens of rank-and-file gang members who carried out routine tasks (Xinhua 2010h).

Second, locally based gangs in Chongqing tended to adopt '*hermit-crab*' *hybrid organization*, making use of their legal fronts (e.g. firms and non-governmental agencies) to cover their illegal businesses. An analysis of information disclosed by the Xinhua News agency shows that over half the criminal syndicates that were destroyed in Chongqing's latest strike black campaign had legitimate covers. Xia suggests that the primary aim of creating a business front is 'not only [creating] a safe place for the dirty money, but also [providing] a safe haven for criminals through

a legitimate gathering site, organizational structure and coherence, and seemingly legal employment' (Xia 2008: 14). Regarding the intermingling of organized crime and public officials, Ko-lin Chin argues that 'the line between legitimate business and illegal conduct had become increasingly blurred' (Jacobs 2009: online). Similarly, Wang Li, a law professor in Chongqing, points out that Chongqing's gangs, like gangs elsewhere in China, are organized around businesses rather than families. He further argues that:

The gangs engaged in the traditional businesses of gambling, prostitution and drug dealing [in the first few years]. But then they set up companies ... many of the larger gangs are contained inside legitimate business, with the godfathers also performing the role of chief executive. Inside the business, a small proportion of gangsters were hired in each department, charged with collecting debts and protection fees. The rest of the employees conduct normal business. (Moore 2009: online)

Most of the gangland bosses under Wen's protective umbrella had legitimate covers such as nightclub owners, construction entrepreneurs, motorbike moguls, and real estate agents. Some of them were even influential millionaires or billionaires. In addition, a business front also enabled gang bosses to create connections with government officials. For example, Gong Gangmo, a gang boss in Chongqing, bribed former police chief Wen Qiang. Wen admitted in a court hearing that he accepted Gong's bribes, but he emphasized that he did nothing for the gang as he thought Gong was a legal businessman, and he was unclear why Gong offered money to him.

Moreover, locally based criminals in Chongqing established trans-regional and transnational *criminal networks* in order to facilitate their businesses. Carlo Morselli defines a network as 'a self-organizing structure that is driven by the emergent behaviour of its parts' (Morselli 2009: 14). A criminal organization that adopts the criminal network form is able to 'capture "a flexible order", structural arrangements that are lighter on their feet than "slow moving" hierarchies and quick to adjust to changing situations and opportunities' (Varese 2010a: 8). The use of networks theory for the study of organized crime has not been widely accepted by most scholars and practitioners in mainland China because they perceive the hierarchical organization (i.e. pyramid structure) as a superior organizational form. However, based on an enormous number of cases of organized crime exposed during China's anti-crime 'strike

hard' campaigns, Xia writes that many hierarchical criminal syndicates evolved into networked forms of organizations to seize the criminal opportunities generated within networks (Xia 2008).

Ao Xingman's gang was the largest drug production and trafficking organization in Chongqing. The organizational framework created by Ao and his confederates was a powerful criminal network combining the features of two forms, a 'cobweb' and a production and distribution chain.<sup>5</sup> Under the 'cobweb' structure, Ao occupied the centre of the networks. Two other gang bosses, Tan Liren and Li Xiang, ex-members of Ao's gang, developed their own drug production and trafficking organizations (Tian 2012). Tan's gang and Li's gang seemed like second-tier groups and acknowledged the hegemony of Ao Xingman in criminal networks, even though they were loosely connected. Each gang engaged in illegal activities independently and cooperated with each other only when necessary.

Moreover, Ao Xingman succeeded in forming a chain-like structure by linking up supply, demand, and protection lines. The chain began in Burma, from where drugs were smuggled by Ao's gangsters through Yunnan Province to the city of Chongqing. The distribution chain consisted of street gangs as well as fourteen notorious criminal groups in Chongqing. The final link in the chain involved distribution in provinces such as Guangdong, Guangxi, and Yunnan. In order to secure his production and distribution chain, Ao also developed a tight relationship with his protector Luo Li, former deputy chief of the anti-drug brigade of the Chongqing Municipal Public Security Bureau (Xinhua 2011a, 2012a).

### *Activities*

The Chongqing case showed that corrupt government officials, especially police officers, supplied sufficient protection services to locally based criminal organizations, enabling organized crime to flourish. Both fieldwork data and published materials suggested that corrupt police officers were the main protection supplier in Chongqing's criminal underworld. Extra-legal protection businesses provided by corrupt police officers established a safe environment for gangsters who had connections with these officers to engage in various kinds of criminal activities and illegal businesses.

<sup>5</sup> Xia (2008) offers more detailed discussions about 'a cobweb' and 'a production and distribution chain'.

For example, Ao Xingman and two smaller players, Tan Liren and Li Xiang, dominated Chongqing's illegal drug market with up to an 80 per cent share (Xinhua 2012a). Ao was able to gain such an extraordinary market share thanks to the protection offered by a senior police officer, Luo Li. Luo arrested other drug traffickers, forcing Ao's competitors out of the market so Ao could expand his market share (Tian 2012). Wang Tianlun, a billionaire and notorious gang boss, managed to gain a 41 per cent share of the hog slaughtering and pork markets through threats and violence. Wang's gangsters forced pig farmers to send their pigs to Wang's slaughtering company, and compelled customers to purchase water-injected meat (Yi 2010). Wang Tianlun's 'success' was also due to his close connections with local government officials, including senior police officers (Xinhua 2010b).

Under police protection, gang bosses in Chongqing earned lucrative profit through engaging in four types of businesses: prostitution, gambling, extra-legal means of dispute resolution, and drug trafficking. *Prostitution* is a booming industry in contemporary China. Four out of the eight criminal groups were involved in the prostitution business. Chen Mingliang and Wang Xiaojun, two gangland bosses, organized hundreds of women to engage in the sex trade (Xinhua 2010h, 2010g). Wang and his partners also opened a male prostitution den named '*Luren Gangwan*' (literally, 'Traveller's Harbour') in a hotel in central Chongqing (Xinhua 2010g).

Wang Ziqi was regarded as the 'godmother' of prostitution in Chongqing. Ms Wang and her sister Wang Wanning ran a brothel named 'Bright Spot Teahouse' in Chongqing between 1994 and 2009 (Moore 2011). *Xinhua News Agency* disclosed that at least 300 women had been victims of the Wang sisters' gang. Some victims died or went mad (Xinhua 2011d). The mass production of cheap sex was mainly supplied for customers who were not willing or able to spend large amounts of money. By contrast, Yue Ning, a famous figure in Chongqing's entertainment industry, ran two of the most lavish nightclubs and earned a huge amount of money from the business of high-end prostitution (Yi 2010; Yu 2010b).

*Gambling* is another lucrative business. Four criminal syndicates under Wen's umbrella were involved in running gambling houses. Xie Caiping operated more than twenty gambling dens, including one just across the street from a courthouse (FlorCruz 2009; Ramzy 2010; Tran 2009; Xinhua 2009c). Xia Ping, under the protection of Xie Caiping, opened a casino in central Chongqing in 2004 and recruited



over thirty members (Xinhua 2010f). In addition, Fan Qihang and Gong Gangmo's gang also operated gambling dens, which contributed over one million RMB to their profits (Feng 2010).

Moreover, these gangs engaged in online gambling and succeeded in expanding their illegal commercial services in Southeast Asia. For example, Wang Xiaojun's gang obtained 170 million RMB through engaging in organizing online gambling between 2001 and 2009. Wang's group also opened four gambling houses in Chongqing in 2003 and expanded its gambling activities to Macau in 2008 (Ma and Wang 2010; Yi 2010). Another gang boss who ran an international gambling ring was Chen Mingliang. Cooperating with gambling casinos in Macau, Chen's gang controlled the 'bate-ficha' business<sup>6</sup> in Chongqing, and took dozens of businessmen (who had to buy chips from Chen) on illegal gambling tours to Macau (Xinhua 2010h; Wang and Antonopoulous 2016).

*Dispute resolution* became a popular business which also brought huge profits to organized crime groups in Chongqing. Prized for its violent reputation, Chen Mingliang's gang was frequently invited to resolve disputes among private business owners, becoming a well-known quasi-governmental organization (TimeWeekly 2009; Yi 2010). For instance, the dispute over He Lunjiang's alleged 97 million RMB gambling debt was settled after lengthy talks between Chen's follower Lei Deming and gang boss Wang Xingqiang. Due to Chen's outstanding reputation, Wang agreed to reduce the debt to only 20 million RMB. In return, Chen's group levied a service charge of 15 million RMB (TimeWeekly 2009).

*Drug production and trafficking* in Chongqing were monopolized by three gangs led by gangland boss Ao Xingman. At least fourteen criminal organizations were involved in selling and distributing illegal drugs on the streets and in their entertainment clubs. For instance, Fan and Gong's gang engaged in illegally selling 10 kg of methamphetamine (Feng 2010). Yue Ning and Xie Caiping, two gang bosses, provided illegal drugs for their gangsters and customers in their gambling houses and nightclubs (TimeWeekly 2009). In addition, many gangs in Chongqing under Wen's protective umbrella also participated in loan-sharking, firearms trafficking and distribution, debt collection, and extortion.

<sup>6</sup> The term 'bate-ficha', suggested by Angela Veng Mei Leong, means 'to handle chips, and lots of chips indicate power and profit. So the bate-ficha business simply means the rolling or exchanging of chips between the customers (gamblers) and the bate-ficha guys (dapma-chai) or chip rollers' (Leong 2002: 86).

## The Role of Guanxi in Building the Political–Criminal Nexus

Creating a political–criminal guanxi network is a necessary item for locally based criminal groups. The long-term survival of the eight notorious gangs in Chongqing was largely due to their success in establishing mutually beneficial guanxi networks with police officers. Guanxi with police officers offers locally based criminals significant protection against the uncertainties created by a series of crime crackdown campaigns. It is, however, not easy for an outsider to establish guanxi with those who control desired resources (Leung et al. 1995). The Chongqing crime crackdown provides information for researchers to analyse how locally based criminals adopted the ‘debt logic’ of guanxi practice to establish mutually beneficial networks with police officers. Guanxi building, as Chen and Chen (2004) argue, is divided into three sequential stages: initiating, building, and using.

### *Initiating guanxi*

Two individuals who do not know each other but want to develop guanxi have to identify or create guanxi bases. A guanxi base is defined by Jacobs (1979: 243) as ‘a base in which two or more persons [have] a commonality of shared identification’. Guanxi begins with a guanxi base, but the existence of a guanxi base does not imply the existence of a guanxi. For example, two individuals might have a guanxi base (e.g. a neighbour) but they never get in touch with each other; under such circumstances, guanxi or active guanxi does not exist.

A guanxi base, as Fan (2002a) and Chen and Chen (2004) suggest, can be classified into four categories: (1) kinship and family ties; (2) common social identities, such as *tong xiang* (from the same birthplace), *tong xue* (from the same educational institution), and *tong shi* (from the same workplace); (3) common third party, which refers to ‘two individuals [who] can claim to have guanxi because they have been acquainted through a third party with whom they both have guanxi even though the two individuals themselves have no other direct guanxi bases with each other’ (Chen and Chen 2004: 311); (4) anticipatory bases, which can be created by two individuals who do not have the types of guanxi bases mentioned in 1, 2, and 3 but can still initiate guanxi through ‘expressing an

intention or even a promise to engage in future exchanges, collaborations, or joint ventures' (Chen and Chen 2004: 311).

Kinship ties are the most widespread and useful way for gangland bosses to create *guanxi* with government officials in small towns. However, a kinship *guanxi* base was not a major way for most gang bosses in Chongqing—a large city in China—to establish *guanxi* with police chief Wen Qiang or Wen's subordinates (Journalist A 2011; Journalist D 2011). Under Wen's umbrella, there was only one criminal organization—Xie Caiping's gang—creating links with Wen Qiang and his subordinates through kinship ties. Xie Caiping, Wen's sister-in-law, was known as the 'godmother' of the Chongqing criminal underworld. Although the *guanxi* between Wen and Xie was bad,<sup>7</sup> Xie had a good affection-based relationship with Wen's wife, so family ties still worked very well in Xie's criminal business (Journalist A 2011; Journalist D 2011). Thanks to Wen's influence, this kinship *guanxi* base also facilitated Xie to create and maintain good *guanxi* with local police officers, including Wen's subordinate Zhao Liming, and two other police officers, Guo Sheng and Gan Yong. The establishment of extensive *guanxi* networks with local police officers enabled Xie not only to be an influential female gang boss, but also to be an effective protector who safeguarded the illegal businesses of other gangsters; for example, she offered protection to Xia Ping's gang (Li et al. 2010).

Most locally based gang bosses in Chongqing did not have kinship ties with Wen and his subordinates, but because all these gang bosses possessed extensive *guanxi* webs in Chongqing's underworld and overworld, they were still able to establish *guanxi* with these corrupt police officers by identifying common social identities and a common third party, or by creating anticipatory bases. An example of identifying common social identities might work as follows: a gang boss would identify the police officer who took charge of a criminal case his gang members were involved in, and get familiar with that officer by finding mutual friends and common experiences.

Being a member of a people's congress or a people's political consultative conference provides a valuable *guanxi* base for gangland bosses to enter into other members' *guanxi* networks, allowing them to infiltrate the Chinese political system (Xia 2004). In

<sup>7</sup> Wen Qiang perceived that Xie Caiping's involvement in gambling businesses was a discredit to his family, so the personal relationship between Wen and Xie was not good.

contemporary mainland China, local economic development is inseparable from the entertainment businesses owned by gangland bosses, such as nightclubs, casinos, and the ‘red light’ districts (Wang 2012b). This makes the relationship between the local governments and nightclub managers harmonious rather than hostile. Moreover, illegal entrepreneurs can buy off senior officials and be admitted into people’s congresses or people’s political consultative conferences (Government official A 2012; Manager A 2012). For instance, Chen Mingliang, a billionaire and notorious gang boss operating prostitution rings, was a member of the People’s Congress in Chongqing’s Yuzhong District before he was arrested in June 2009. Taking part in people’s congresses not only provided Chen with a legitimate cover, but also enabled him to develop friendly relationships with senior government officials, including two former police chiefs: Wen Qiang and Peng Changjian.

### *Building guanxi*

The existence of a guanxi base is not sufficient to develop active guanxi. As Fan (2002a: 548) demonstrates, ‘there must be some other factor(s) that trigger the development of guanxi’. A wide variety of transactional activities or interpersonal interactions can form triggers that turn outsiders into insiders (Jacobs 1982; Yang 1994).

In Chongqing, bribes in the form of money, free sex, and promotions are frequently used by gangsters to develop good guanxi with government officials. Chongqing’s criminal syndicates normally expanded their networks within the Chongqing Public Security Bureau through bribery. For example, in order to secure protection from government officials, Gong and Fan bribed a number of officers, including former police chief Wen Qiang, and three senior officers from the city’s public security police division (Yang and Chen 2010). The money offered by Fan and Gong was sent to these corrupt officials as presents for Chinese Spring Festival, the traditional occasion for giving presents and an ideal opportunity to offer bribes (Prosecutor B 2011; Journalist D 2011). Moreover, bribes were offered when money was most needed, for instance when a family member of an official needed medical care, planned to study abroad, or started a new business, or when an official wanted to buy a new house, make some investments, or travel abroad (Chin and Godson 2006; Li 2011b).

Chongqing’s strike black campaign suggests that sex was also frequently used by gangsters to establish good guanxi with police

officers. For instance, the Wang sisters provided free sexual services for Chen Tao, former deputy head of the city's public security police division. Chen also asked the Wang sisters to provide sexual services for Chen's colleagues, such as Huang Daiqiang and Wen Qiang (Luo et al. 2010; Xinhua 2010h). Another example was former police chief Wen Qiang, a frequent visitor to Yue Ning's lavish nightclubs. He received VIP treatment—free sexual services—or services charged at 30 per cent discount (Yu 2010c).

The practice of using or hiring sex workers (also known as 'public relations girls') by gangland bosses and illicit entrepreneurs to bribe party officials and police officers has become commonplace in China (Jeffreys 2006). Since 1996, there has been considerable debate over whether to criminalize 'sex-related bribery' and corruption. 'Sex-related bribery', however, has not been criminalized by Chinese Criminal Law for two reasons: first, sex is understood as a private matter, with practices relating to the buying and selling of sex being viewed as a moral problem (Jeffreys 2006); second, it is extremely difficult for the police to collect evidence in cases of sex-related bribery and corruption (Wang 2013d). The lack of legislation concerning 'sex-related bribery' encourages gang bosses and illegal entrepreneurs to use sex to build friendly *guanxi* with police officers.

Assisting local police officers to attain promotions was another way to create the political–criminal nexus. It was widely acknowledged that government officials who were bought off by protection seekers were not reliable, while those who became friends of their bribers were more trustworthy, and those who received assistance from gangsters in their promotions were the best and most loyal protectors of all (Pei 2008). Using *guanxi* and bribe payment to secure promotion, gangsters in several major cities successfully manipulated rounds of competitions for jobs (Wang 2012b). Moreover, the nexus was created when gangsters provided significant information relating to other criminals' activities or removed the obstacles to promotion for government officials. For instance, Ao Xingman, a notorious gangland boss, provided police officer Luo Li with privileged information about other gangs' involvement in a variety of drug trafficking, distribution, and production activities. With the help from Ao, Luo became a well-known hero in a series of actions against illegal drug activities. In return, Luo overlooked Ao's criminal activities (Xinhua 2011a, 2012a). In 2001, following the instructions of Luo, Ao and three confederates murdered Zhang Hao, 'a drug trafficker who threatened to give evidence against Luo after

his request for protection was rejected’ (Xinhua 2011a: online). In this case, the links between Luo and Ao were strengthened.

### *Using guanxi*

Once the target recipient (a police officer) accepts the bribes (e.g. free sex, money, expensive gifts, and assistance for promotion) from a gang boss, the recipient has a sense of moral obligation to reciprocate. As Wong and Chan (1999: 115) argue, ‘being an insider, that is, within the network, means that information exchange and mutual understanding are enhanced or exchanged substantially and smoothly’.

For example, the establishment of close guanxi with police chief Peng Changjian enabled three gang bosses (Ma Dang, Wang Xiaojun, and Yue Ning) to dominate the prostitution business in Central Chongqing District (Xinhua 2010d). In order to create a good operating environment for the illegal clubs owned by these gang bosses, Peng ordered police officers not to conduct routine investigations of these clubs but only act if the officers received public tip-offs or obtained evidence (Xinhua 2010c). Furthermore, during traditional Chinese holiday seasons (e.g. Chinese New Year and the Mid-Autumn Festival), Peng often invited other senior police officers to take part in parties organized by gang boss Ma Dang (Tian 2010). This allowed Ma to establish guanxi with all these officials who became new members of this corrupt guanxi network.

The Chongqing case illustrates that the principle of reciprocity in the guanxi network encouraged corrupt police officers to offer illegal protection to their bribers, such as protection of illicit businesses, protection against extortion conducted by public officials, and protection against criminal investigation and punishment. Corrupt officials also facilitated the supply of essential information from the criminal justice system to gang bosses, the use of officials’ personal networks for gangsters to create extensive links, and the provision of assistance in gangs’ market competition.

### *The importance of middlemen*

The process of building an effective guanxi network, as Pearce suggests, is extremely time-consuming and complex. This does not mean, however, that the help seeker who does not have direct guanxi with the potential giver cannot employ guanxi to facilitate transactions. In most cases, intermediaries or middlemen have well-institutionalized roles in bringing together two

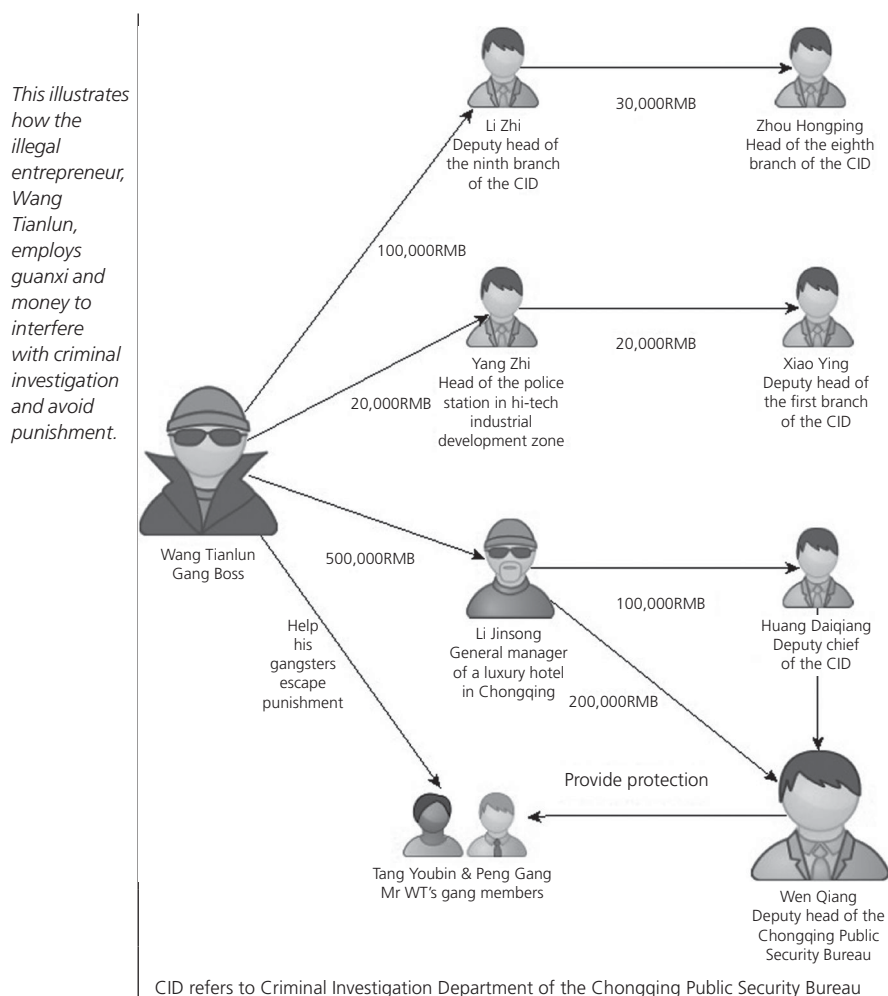
parties who otherwise probably would not meet. As Pye and Pye (1985: 294) argue, ‘middlemen can reduce uncertainty, clarify the respective rewards and advantages, and thus put the relationship on an objective basis, therefore reducing the importance of [the] emotional dimension’.

The Wang Tianlun case offers a good illustration of how gang bosses rely on middlemen to get things done (see Figure 6.1). Wang Tianlun, a billionaire and notorious gang boss, monopolized Chongqing’s hog slaughtering and pork market through threats and violence (Wang 2009b; Yi 2010). In mid-December 2003, Wang Dongming, Wang Tianlun’s brother, assigned two gangsters to ‘teach a lesson’ to a pig farmer who refused to sell pigs to the slaughtering company owned by Wang Tianlun’s gang; this action ended in the death of that farmer (Wang 2009a). Immediately after this incident, Wang Dongming and two gangsters were arrested by the Criminal Investigation Department (CID) of the Chongqing Public Security Bureau.

In order to help his brother and gang members escape punishment, Wang Tianlun had to make use of his *guanxi* networks and money. Li Zhi, deputy head of the 9th branch of the CID, was a long-time friend of Wang Tianlun because they came from the same town. However, Li Zhi had just been transferred to the CID and had not set up close *guanxi* networks with his colleagues. He turned to Zhou Hongping, Li’s classmate and the head of the 8th branch of the CID, to ask for confidential investigation information of this case. With the help of Zhou Hongping, Wang Tianlun identified two police officers who took charge of the Wang Dongming case. But these officers refused to offer any useful information, which was quite unexpected (Xinhua 2009a).

The failure to gain confidential information through employing Wang Tianlun’s relationship with Li Zhi did not stop Wang. He next turned to a *guanxi* middleman, Li Jinsong, with whom he had a long-term business *guanxi*. The long-term management of a luxury hotel enabled Li Jinsong to create a wide *guanxi* network with high-ranking police officers including Wen Qiang. Initially, Wen refused to attend a dinner organized by Li Jinsong (i.e. refused to give *mianzi* to Li). Then Huang Daiqiang, a key member in Wen’s corrupt network and deputy chief of the CID, was invited by Li Jinsong as an intermediary to persuade Wen to offer help. After receiving 100,000 RMB, Huang Daiqiang organized a dinner and Wen Qiang, Wang Tianlun, and Li Jinsong were invited. A close *guanxi* with Huang obliged Wen to provide this favour. Wen appointed Huang Daiqiang as a team leader to

handle this homicide case. Huang Daiqiang halted the criminal investigation, and as a result, Wang Doingming and his gangsters escaped conviction (Xinhua 2010b, 2010a).<sup>8</sup> This case illustrates the importance of middlemen in facilitating corrupt transactions.



**Figure 6.1 Wang Tianlun's guanxi networks with police officers<sup>9</sup>**

<sup>8</sup> The investigation of the case did not resume until the arrest of Wen Qiang in 2009.

<sup>9</sup> The original table is from ChinaDaily.com. Information in this table has been updated.



It also shows that money is not the key factor for a corrupt transaction. Instead, government officials care more about the principle of reciprocity or the obligation to save face (*mainzi*) within *guanxi* networks.

To sum up, the political–criminal nexus in Chongqing demonstrates how gangland bosses established close *guanxi* with those in positions of power by adopting the three stages (i.e. initiating, building, and using) of *guanxi* building and emphasizes the importance of middlemen in *guanxi* practice. After the creation of mutually-beneficial networks, corrupt government officials secured the eight notorious local gangs' criminal businesses, enabled them to gain access to licit and illicit business opportunities, helped them escape punishment, and assisted them in monopolizing local illegal markets.

### Public Power as a Commodity

Illegal markets, such as prostitution, gambling, and drug trafficking, have increased in China since the early 1990s.<sup>10</sup> During an interview with Professor Qiu Geping, an expert on Chinese organized crime, Qiu told the author that 'China's local governments normally turn a blind eye to illegal markets, such as prostitution and gambling, when the economy of cities is only in its infancy; this has been widely regarded as the hidden rule of attracting foreign investors who are regular consumers of these services.'<sup>11</sup>

Denizens of the criminal underworld are unable to make use of state-sponsored protection and enforcement mechanisms to safeguard their personal security and guarantee their property rights, or resolve disputes, because they are operating outside the law (Hill 2003; Wang 2011). For illegal markets to operate effectively, criminals must provide governance institutions themselves to 'define and enforce property rights, adjudicate disputes, and mitigate the harms of externalities' (Skarbek 2011: 702). However, gangs in China fail to limit negative outside interferences, especially threats posed by the criminal justice system such as police extortion, criminal investigation, and

<sup>10</sup> Federico Varese analyses foreign triads in China in *Mafias on the Move* (2011). He offers a similar argument about the development of large illegal markets in China since 1978.

<sup>11</sup> Qiu Ge-ping, 11 January 2012, interview, Shanghai, People's Republic of China.

crime crackdowns organized by both central and local governments. The inability of gangs to rely on state-sponsored formal protection mechanisms or to defend themselves leads to a huge demand for protection. As Varese (2004: 145) argues: 'lack of protection implies that there will be more opportunities to meet that demand, and hence that meeting it will be more profitable than elsewhere'.

In post-Mao China, the booming illegal markets have created demand for alternative sources of protection. Meanwhile, a supply of people who possess authority and specialize in abusing power is available within China's socialist market. The extensive literature on the theory of corruption in communist and post-communist countries has established that the Chinese Central Government and the rule of law have failed to control widespread corruption (Manion 2004; Pei 2009; Steidlmeier 1999; Sun 1999, 2004). Chinese economist He Qinglian shows that 'the extent of corruption has increased dramatically and sharply since 1978 with the situation becoming even worse after in the 1990s' (He 2000: 245). Lo (1993) suggests that the party-state controls the means of production without sufficient supervision, which enables party cadres to abuse their power for private gain. Moreover, the existence of the *guanxi* network encourages police officers to collude with organized crime groups for private gain as the political and legal system fails to specify and enforce clear criteria for the exercise of police power.

Where the government loses control over corruption, government authority or public power becomes a commodity. Transactive corruption involves not only illicit exchanges between state and non-state actors in which public officials 'sell' their authority to private actors, but also illicit exchanges among state actors in which high-ranking government officials 'sell' promotions and opportunities to lower-ranking officials and shelter other officials' corrupt transactions. Compared with commodities in legal markets which are traded through price competition, corrupt benefits are exchanged according to the logic of *guanxi*: *ganqing* (affection) and *renqing* (felt-obligation) in the interpersonal relationship.

Corrupt public officials view *guanxi* as a useful tool as they can employ *guanxi* networks to conduct and safeguard corrupt deals. However, upright officials view *guanxi* as a burden, because they have to face great pressure from their *guanxi* members. *Guanxi* rules (eg the principle of reciprocity and the essence of maintaining face) force officials to offer corrupt benefits to those in their *guanxi* networks. As Kiong and Kee (1998: 81) argue, 'the closer

the *guanxi*, the higher the expectation of its reliability by both parties'. Violation of expectation produces a sense of disruption of trust, and thus damages one's reputation in the *guanxi* network.

In the absence of strong government and effective self-protection associations, an alternative system of governance—the corrupt network within law enforcement agencies, consisting of police officers connected and coordinated through the rules of *guanxi*—has emerged to safeguard illicit groups against negative outside influences. The existing literature shows that both centralized and decentralized governance institutions acquire resources in three ways, as Skarbek suggests: 'relying on people's inherent cultural preference to contribute, increasing the quality or quantity of the good to entice contributions, abusing threats and violence against people who do not contribute' (Skarbek 2011: 702; Wintrobe 1990, 1998). Past research mainly focuses on how groups finance governance by loyalty and repression, while this chapter reports on the corrupt *guanxi* network in China and suggests the abuse of power by police officers as a fourth instrument for financing governance.

Corrupt police officers successfully obtain resources by increasing the benefits of participation and raising the cost of refusing to participate. To be specific, creating a political–criminal nexus or 'wearing a red hat' has become the most effective way for organized crime groups to gain extra-legal protection. Interview data suggests that it is impossible for local gangs to have a long-term existence if they fail to create links with government officials, especially those from the criminal justice system (Focus group discussion A 2011; Businessman B 2012; Government official B 2012; Interview with Professor Mei Chuanqiang 2011). Large sums of money, expensive gifts, free sexual services, and assistance with promotion are usually offered by gangsters to public officials, especially police officers (Chin and Godson 2006; Clarke et al. 2006; Punch 2009; Punch and Gilmour 2010). In return, corrupt officials offer illegal protection to their bribers.

A case study of Chongqing shows that 'gangs are infiltrating government at ever-higher levels, even into the senior reaches of provincial governments and central ministries' (Economist 2009: online). Interview data shows that the nexus between gangsters and low-ranking government officials seems tight, while the links between gangsters and high-ranking officials are sometimes loose because these senior officials seldom deal protection directly with gangsters.

In Wen Qiang's case, for example, the gang bosses only obtained protection services directly from Wen if Wen's 'heavenly guardians' were unable to provide sufficient protection (Journalist D 2011). In one such incident, gangsters wanted to escape punishment for committing a murder, but Wen's subordinates did not possess the authority to interrupt the criminal investigation. Wen did it instead (Journalist A 2011; Journalist D 2011).

Moreover, apart from services directly offered by corrupt police officers, for example, protecting criminals' businesses, protecting the criminals from law enforcement authorities, and actively participating in criminals' businesses (Chin and Godson 2006), protection services are also exchanged within protective umbrellas that are organized as pyramids where high-ranking officials sell protection to the low- and mid-level officials who deal with gangsters directly. The rule of the protection market in the criminal underworld may be as follows: high-ranking officials are top-level producers and sellers, while low-ranking officials buy protection from their 'bosses' and resell it to individuals who are willing to purchase extra-legal protection for their criminal businesses (Prosecutor A 2011; Prosecutor B 2011; Journalist D 2011; Taxi driver A 2011; Taxi driver C 2012).

Low- and mid-ranking police officers protect these notorious gangs directly, while high-ranking officers acted behind the scenes guaranteeing the work. This is how corrupt police officers control the production and distribution of illegal protection in the criminal underworld.

## Conclusion

The Chongqing crime crackdown offers an excellent opportunity to examine the role of *guanxi* practice in facilitating the buying and selling of public offices and building mutually beneficial networks between locally based criminals and police officers. Relational power encourages senior officials to distribute promotions and opportunities to those close to them in *guanxi* networks, facilitating the formation of illegal job markets within the public sector. Selling public appointments and associating with legitimate businesses are major strategies for senior police officers to obtain illicit benefits, while mid- and low-ranking police officers who want to obtain corrupt benefits normally establish mutually beneficial networks with locally based criminal groups and illegal entrepreneurs.

Organized crime groups in contemporary China have great incentives to buy protection from local government officials, especially police officers, in order to deal with external uncertainties caused by anti-crime campaigns organized by both central and local governments. Gangland bosses follow the three stages of *guanxi* building and frequently employ middlemen to create close interpersonal relationships with police officers. Once the red-black collusion is established, protection supplied by police officers enables gang bosses to monopolize illegal businesses and avoid police repression.

## **PART III**

### **Conclusions and Reflections**



## The Mafia and the State

This book is fortunate to be able to count on Gambetta's economic studies of the mafia and Granovetter's concept of embeddedness, which have led to new insights and inspired a new theory, the socio-economic theory of mafias. The study of the mafia requires researchers to adopt global and comparative perspectives. It is therefore pertinent to compare the ways in which extra-legal protectors in China differ from other long-standing mafias, and to clarify to what extent the study of Chinese extra-legal protection contributes to the body of knowledge. By comparing mafias in China and Western countries, this chapter explores the difference between mafias in the democratic state (especially Italy) and those in the authoritarian state (e.g. China) from three main perspectives: (1) emergence, (2) operation, and (3) the relationship between mafias and politicians.

This chapter is divided into four sections. The first briefly reviews the Sicilian model of mafia emergence. In the second, the author explains why the Sicilian model cannot be used to interpret the rise of Chinese-style criminal protection groups and proposes a Chinese model of mafia emergence that incorporates the concept of *guanxi* into the discussion of the rise of extra-legal protectors in mainland China. The third compares the relationship between the mafia and politics in Italy and China. The final section offers implications for future research.

### The Sicilian Model

There is no doubt that *The Sicilian Mafia* (Gambetta 1993) has become the single most influential book on the economic theory of organized crime. The theoretical framework suggested by Gambetta has been applied by a number of scholars to interpret



the rise of criminal protection organizations in very different parts of the world. As Gambetta (2011) himself notes:

[T]he book has had some success at influencing several studies that have taken its approach further in a number of directions, both theoretical and empirical ... for example, Yiu Kong Chu (2000) has worked on the Triads in Hong Kong; Federico Varese (2001) and Timothy Frye (2002) on the emerging Mafia in post-Soviet Russia; Curtis Milhaupt and Mark West (2000) and Peter Hill (2003) on the Yakuza in Japan; and Marina Tzvetkova (2008) on the Bulgarian emerging protection market. (p. 6)

Moreover, Gambetta's book contributes to the development of a number of other areas of research such as mafia transplantation (Varese 2006, 2011a), mafia diversification (Campana 2011a), prison gangs (Skarbek 2011, 2014), youth gangs (Sobel and Osoba 2010), and the study of extra-legal governance (Dixit 2003, 2004). It is, however, important to note that Gambetta's innovative research on the mafia in Sicily was published in 1993. It is now time to reconsider the importance of the Sicilian model of mafia emergence.

One of Gambetta's most important insights relates to the defining feature of the mafia: the commodity mafia groups provide is not violence but protection (Gambetta 1993; Varese 2014). According to Gambetta, a mafia is a special type of organized crime group that specializes in producing, selling, and distributing private protection (Gambetta 1993). The difference between a mafia group and a drug syndicate is clear: the former attempts to control the supply of criminal protection and extra-legal enforcement; the latter attempts to control the supply of drugs (Gambetta 1993). This distinction between mafia and organized crime offers a solid theoretical foundation for further research.

Another of Gambetta's significant contributions is the discussion of the relationship between mafia emergence and distrust. He explains the origin of the Sicilian mafia as a perverse response to the lack of trust in southern Italy in the early nineteenth century (Gambetta 2000). Endemic distrust is identified as the key point to explain why the mafia emerged in southern Italy rather than elsewhere in the country (Gambetta 1993). Mafias are able to facilitate market exchanges among participants who distrust each other by enforcement of deals and promises (Gambetta 2000; Varese 2006). Moreover, the mafia has thrived for centuries by continuously injecting 'distrust into the market to increase the demand for the product [it] sells—that is, protection' (Gambetta 2000: 173).

The third and most significant contribution made by Gambetta is the establishment of the valuable theory named by Varese as the

‘property-right theory of mafia emergence’ (Varese 2011a). Two fundamental issues are identified when Gambetta interprets the origins of mafia: the demand for protection, and its supply. As Gambetta (1993) argues, all illegal business transactions need a certain type of protection and enforcement, otherwise exchanges will not occur. This implies that demand for extra-legal protection remains constant in illegal markets. Moreover, the failure of the state to provide sufficient and efficient protection to legitimate entrepreneurs and individuals results in demand for mafia protection in legal markets (also see: Varese 2001).

For example, the abolition of feudalism in 1806 in Italy’s continental South and in 1812 in Sicily, and the widespread introduction of private property rights, resulted in a dramatic increase in demand for protection (Gambetta 1993). The state failed to protect newly established private properties, forcing property owners to seek alternative forms of protection. Gambetta emphasizes that the mafia is not the only solution; protection suppliers also include paramilitary organizations, private security companies, and tribal elders. But market participants normally choose the strongest supplier; this is not necessarily the cheapest, but one that offers ultimate guarantees in the area (see also Nozick 1974).

In areas like rural eastern Sicily, where traditional elites were present and united, these elites were able to meet the growing demand for protection. In western Sicily, however, a new industry consisting of people trained in violence and specializing in the supply of private protection began to emerge in the first half of the nineteenth century (Gambetta 1993). The ‘supply–demand’ model of mafia emergence has become a general theoretical framework for the examination of extra-legal protection groups in many transitional countries (Varese 2001). Here, the mafia functions as a substitutive informal institution that achieves what formal institutions are designed, but fail, to achieve, including the protection of private property rights and the facilitation of transactions.

As mentioned above, Gambetta’s research on mafias establishes a sound theoretical and empirical foundation for the economic theory of organized crime. The great success of the Sicilian model has stimulated researchers’ interest in exploring the question: can the Sicilian model of mafia emergence be used to interpret the origin of the mafia in post-Mao China? Gambetta himself argues that his theory might be useful to predict the rise of secret societies (e.g. the Shanghai Green Gang) before 1949, but it is not able to interpret

the rise of extra-legal protection in contemporary China.<sup>1</sup> This is because the historical conditions that gave rise to the growth of the Sicilian mafia do not apply to post-Mao China. The Sicilian mafia and the Russian mafia emerged when there was no strong government, while China is different: the party-state is very strong. In this case, Gambetta's theory is neither right nor wrong when applied to China. This encouraged the author to establish a new theory that takes into account China's local conditions.

Strong as it is, however, the Chinese state is not strong enough to curtail rampant corruption within the public sector. Moreover, it fails to protect government officials from the demands of *guanxi* networks. The exploration of *guanxi* and law in Chapters 3, 4, 5, and 6 offers a clear picture of extra-legal protection as it operates in contemporary China.

### The Chinese Model

Drawing on published materials and fieldwork data, this book contributes to the existing literature by proposing the 'socio-economic theory of mafia emergence', which incorporates Granovetter's argument on social embeddedness into Gambetta's 'property-right theory of mafia emergence'. To be specific, Gambetta's theory states that individuals and merchants in both legal and illegal markets tend to choose the strongest protection supplier, contributing to the development of a certain type of protection (e.g. the mafia). This theory, however, does not explain why people, in environments characterized by the absence of trust, trust criminals. The theory of social embeddedness offers a complementary explanation by arguing that all economic behaviours—including the purchase of illegal goods and services—are embedded in networks of continuing social relations (Granovetter 1985).

In contemporary China, the investigation of extra-legal protection needs to incorporate the concept of *guanxi*—a Chinese variant of social capital—into the analysis, because *guanxi* and the formal legal system coexist in Chinese society. The existing *guanxi* literature examines how *guanxi*, as a positive factor, complements or substitutes for the formal institutional framework. This book, however, reveals the negative side of *guanxi* and explores how the

<sup>1</sup> Diego Gambetta, personal communication, e-mail message to author, 4 June 2013.

coexistence of *guanxi* and law undermines China's formal legal system and leads to corruption in the public sector. Contradictions between *guanxi* and the formal legal system prevent China's legal system from supplying sufficient and efficient protection for individuals and entrepreneurs, leading to the involvement of street gangs in the provision of private protection and quasi law enforcement. Meanwhile such contradictions prevent the formal system from controlling the abuse of power by public officials; as a result, corrupt officials are widely involved in selling public appointments and exchanging illegal benefits with businesses.

### *The Black Mafia*

The Sicilian model emphasizes the relationship between state failure and mafia emergence. The case of China, however, illustrates the way in which this dominant theoretical framework oversimplifies the mechanism of mafia emergence. To be specific, the Sicilian model misses an important aspect of what makes potential customers believe mafia groups are willing to—and have the ability to—provide high quality, reliable, and trustworthy services. Unlike normal market transactions, there is considerable uncertainty about both the price of these illegal transactions and their results. That is to say, why do private property owners, in a post-Mao China characterized by the absence of trust, place their trust in criminal groups?

The buying and selling of extra-legal protection or quasi law enforcement services certainly requires a mechanism to reduce illegal transaction costs, guarantee quality of service, and punish violators. In contrast to past research on the mafia, which has typically ignored the role of social capital in reducing transaction costs associated with the extra-legal protection market, this book establishes how *guanxi* networks facilitate trust and promote illegal commodity exchanges.

Chapter 4 argues that reputation and trust embedded in *guanxi* networks are essential factors in the buying and selling of extra-legal protection. Quasi law enforcement supplied by street gangs is frequently used by private individuals and entrepreneurs to prevent government officials' extortion, repel stalkers, and improve the efficiency of debt collection. The use of extra-legal protection requires purchasers to invest in 'personal affection' and 'friendship' in order to establish a high level of trust. Extra-legal protection or

quasi law enforcement is therefore a luxury item: developing and/or maintaining *guanxi* with unlawful enforcers costs time, energy, and money, all of which are limited resources. Moreover, Chapter 4 suggests that soft violence has become the main weapon used by street gangsters (i.e. extra-legal protectors). The use of soft violence enables these unlawful protectors to stay safe, as the police choose not take action unless physical violence occurs.

Using *guanxi* in the extra-legal protection market can be a double-edged sword: on the one hand, it guarantees the quality of mafia services, and thus induces individuals or entrepreneurs to purchase extra-legal protection. On the other hand, the *guanxi* network sometimes makes mafia services ineffective, for example when criminal enforcers who are invited to enforce loan repayment belong to the same network as the debtors. This makes enforcement extremely difficult.

### *The Red Mafia*

This book examines another enforcement system—the Red Mafia—which performs the same function as the Black Mafia but in a different way. As the existing mafia literature points out, the mafia—the main player in the criminal protection market—attempts to control the supply of private protection. Empirical data from China, however, suggests that organized crime groups are no longer key suppliers; instead, corrupt public officials are invading and beginning to control this profitable business (see Chapters 5 and 6).

The Red Mafia consists of a large number of corrupt public officials in mainland China who behave like *mafiosi* and regard the provision of extra-legal protection as their main source of income. As is well documented, corruption is a serious problem in China (Pei 2009; Steidlmeier 1999; Sun 2004). Chapter 5 shows that most mid- and high-ranking public officials obtain corrupt benefits by buying and selling public appointments and affiliating with wealthy businessmen (also see Ngo 2008; Zhu 2008). Chapter 6 illustrates that law enforcement officers who want to achieve such benefits, especially mid- and low-level police officers, tend to associate with local gangsters.

This book adopts a broad definition of ‘protection’: protection offered by the Red Mafia refers to ‘corrupt benefits’ that are normally distributed through *guanxi* networks. The existing literature

suggests that China's economic reforms resulted in a surge in corruption, the form of which has shifted from plunder to transactive corruption wherein corrupt officials sell favours to private actors seeking profit-making opportunities (Wedeman 2012a). The study of transactive corruption also needs to encompass corrupt exchanges within the public sector, including the buying and selling of public positions as well as the concealment of colleagues' wrongdoing. In this book, the concept of protection is not limited to favours exchanged between government officials and private individuals but extends to 'corrupt benefits' distributed within the public sector.

Corrupt public officials obtain wide-ranging illegal benefits by increasing the benefits of participation in corrupt exchanges and raising the cost of refusing to participate. As Chapter 5 shows, senior public officials tend to distribute promotion opportunities to subordinates with whom they have *guanxi* ties, which means that junior officers who are not members of senior officers' *guanxi* networks have less chance of gaining promotion. The political-business alliances between top politicians and business elites bring lucrative business opportunities to these rich businesspeople. In return, the businesspeople act as 'financiers' who remove career obstacles for the politicians.

Analysis of the Chongqing crime crackdown confirms that protection supplied by corrupt law enforcers is essential for entrepreneurs to achieve success in illegal markets. Locally based criminal syndicates that establish *guanxi* networks with police officers are not only able to monopolize illegal markets but also remain safe even in crime crackdown campaigns, while criminal groups who fail to obtain protection from government officers will either be expelled from the market or destroyed by anti-crime actions. When a corrupt *guanxi* network is established, mid- and low-ranking law enforcement officers make exchanges directly with locally based criminals. In order to secure their positions, avoid punishment, or obtain promotions, lower-level officials tend to bribe higher-level officials with money and expensive gifts. In response, high-ranking officials have to return favours to their bribers, for example turning a blind eye to their subordinates' protection business. When low-level officials lack the ability to shelter these criminals, higher-ranking officials shoulder this task, because failure to follow the rules of reciprocity in a *guanxi*-based relationship will result in the loss of face and being viewed as untrustworthy.

*Guanxi practice as a social evil*

Guanxi is a neutral word in Chinese. For example, Shang et al. (2012) argue that guanxi as a power source is neutral in itself; it is thus not right for scholars (for example Chen and Chen 2012) to separate good guanxi from bad. Shang et al. (2012: 438) further explain that ‘it is what guanxi is used for and how it is used that leads to good and bad results’. Similarly, Chen and Chen (2004: 312) point out that ‘the quality of guanxi is a neutral term describing the subjective judgment made by the guanxi parties regarding the current state of their guanxi’.

Guanxi may be morally neutral, but ‘the consequences of guanxi [practice] can range from benign, neutral, to questionable and corruptive’ (Fan 2002b: 378). As Chen et al. (2004: 201) argue, ‘guanxi practices become problematic when favour exchanges involve the personal use of formal organizations’ collective resources’. The exchange of gifts, favours, and banquets are normal ways of creating and maintaining guanxi networks in private domains of life (Yang 2002). However, in the absence of effective law regulating gift exchanges made by officials, the importance of *mianzi* (face) and *renqing* (affection) encourages or even forces government officials to use their positions to hive off public resources and sell them to those with whom they have close guanxi ties (Chen et al. 2004; Park and Luo 2001; Zhan 2012). This brings benefits to corrupt exchange participants at the expense of others, such as competitors or the general public (Fan 2002b). Under such circumstances, inappropriate practice of guanxi erodes the arm’s-length principle, which states that personal relationships—such as friendship or kinship—should not play a role in the decision-making of government officials (Fan 2002b). Furthermore, as this book suggests, guanxi practice/manipulation inevitably violates the rule of law when judicial decision-making is embedded in guanxi networks.

On the one hand, legal and illegal businesses that demand capital or protection always employ guanxi networks to obtain what they need from power-holders. Corrupt officials, on the other hand, rely on guanxi ties—the safe and secret channel—to distribute benefits in order to earn under-the-table income. Transactive corruption proliferated as reform deepened (Wedeman 2012a), so the negative influence of guanxi practice on the formal legal system is growing. For example, scarce material resources are allocated through guanxi networks rather than according to government policy and

regulation. Public appointments and promotion opportunities are distributed to members in corrupt officials' networks rather than through fair competition (Chapters 5 and 6). Unlawful protection is offered by corrupt police officers to gang bosses with whom they have close *guanxi* relationships, while other criminal or illicit entrepreneurs who do not possess *guanxi* resources suffer from greater risk of being destroyed by anti-crime campaigns (Wang 2013b).

In most circumstances, the rules of *guanxi*, such as reciprocity, *renqing* (obligation), and *ganqing* (affection), urge private individuals and government officials to get things done regardless of the arm's-length principle and the rule of law. A government official or law enforcer embedded in social networks feels obliged to offer favours to the people in his network and to distribute corrupt benefits to those who are closer to him (Zhan 2012). *Guanxi* in contemporary China has gradually transformed from a substitutive to a complementary and finally to a corrosive informal institution.

To sum up, the study of extra-legal protection in China needs to take local conditions into account, such as the co-evolution of *guanxi* practice and the legal system. That means this book cannot simply apply Gambetta's theoretical framework. The examination of this dual system provides a new insight into the understanding of China's weak legal system and the rise of extra-legal protectors. Take the Chongqing case, for example. Here, *guanxi* has become a key strategy for both parties: locally based criminal syndicates make use of *guanxi* to obtain protection from law enforcement agencies; government officials employ *guanxi* to engage in illegal activities, such as rent-seeking and the buying and selling of offices, to achieve corrupt benefits. In addition, the buying and selling of mafia services (Red Mafia protection and Black Mafia enforcement) is largely based on trust and reputation within *guanxi* networks.

## The Mafia and Politics

Italian society has witnessed pervasive collusions between mafiosi and state representatives. The alliance with politicians and state representatives, as Paoli (2004: 27) points out, has been 'a key element of the success and, truly, the very survival of southern Italian mafia groups'. To be specific, the major benefits for mafia groups to create such alliances include: (1) obtaining protection from politicians who have the power to intervene in anti-mafia law enforcement activities; and (2) securing substantial contracts for public



works and tax collection (Alesina et al. 2016; Gambetta 1993; Paoli 2004).

The major service mafia groups supplied to their political patrons was helping them get elected. In southern Italy, the state institutions were weak in maintaining public order. Mafia groups, who filled the power vacuum and offered protection for people in need, had extensive influence in local communities (Gambetta 1993). The extension of suffrage in 1882 compelled politicians in Sicily and Calabria to collaborate with local mafiosi in order to gain support from the lower and middle classes (Paoli 2004). After the Second World War, mafia groups continued to play an essential role in political competition, as Paoli (2004: 39) argues: mafiosi ‘controlled the process of recruitment at the local level, [exerting] a considerable influence in the selection of the party leadership at even the national level’. Since the late 1970s, the power relationship between mafia groups and their political sponsors has been further strengthened because major mafia organizations, such as ‘Ndrangheta families and Cosa Nostra’, exerted control over political life in their territories by using pre-electoral violence.<sup>2</sup>

Mafia groups have employed several strategies to influence electoral results and get favoured politicians or their own members elected, as Alesina et al. (2016: 2) suggest:

First, [mafia groups] can simply eliminate candidates from honest parties. Those who step in may be less qualified, or intimidated, and therefore engage in less effective campaigns. Second, criminal organizations may disrupt the campaign operations of honest candidates, by damaging their headquarters or scaring campaign workers. Third, criminal organizations may intimidate voters, threatening violence if captured politicians are not elected. Fourth, such organizations may credibly threaten retribution against elected honest politicians.

Similar to the relationship between mafias and state power in Italy, the Shanghai Green Gang played an essential role in helping the Chiang Kai-shek government win absolute control of Shanghai’s political system in 1927. As Chapter 2 discusses, Shanghai Green Gang members killed hundreds of communists and completely destroyed the communist party’s power base in trade unions. This

<sup>2</sup> Since the early 1990s, Italian society has witnessed the process of de-legitimization of mafia groups because of the establishment of a more efficient and transparent political system as well as the empowerment of law enforcement agencies. Nevertheless, the nexus between mafiosi and politicians ‘is far from being disbanded’ (Paoli 2004: 57).

strategic use of violence by Green Gang bosses strengthened their links with top politicians, enabling them to exert strong influence over the local economy.

Violence is not tolerated by the Chinese government in the post-Mao era, however. The Chinese government sees violent crime as a serious threat to social stability, and because social stability forms a major source of legitimacy for the single-party state, perpetrators of violent crimes are highly likely to be arrested and punished.

Under China's undemocratic system of government, there are no direct elections for local and national leadership. This provides no opportunity for gang bosses who enjoy prestige in local communities to sell election services to politicians. Nevertheless, it is undeniable that post-Mao China has seen an increasing infiltration of organized crime groups into the political and economic system. In order to weaken law enforcement against criminal organizations, a nexus has been widely established by gangsters with low- and mid-level police officers (see Chapter 6). But there is no evidence to show that criminal organizations have established mutually beneficial networks with top politicians.

Street gangsters contribute to the development of local economies to some extent. For example, real estate developers and local governments frequently invite unlawful enforcers, consisting of gang members and unemployed people, to solve the problem of nail households (see Chapter 4). Furthermore, many gang bosses who are 'elected' as members of people's congresses or people's political consultative conferences are able to engage in local government decision-making (see Chapter 6). Both fieldwork data and published materials confirm that gang bosses have not set up relationships with public officials on an equal basis; gang bosses, in most cases, play a subordinate role in this power relationship.

## Implications for Research

Gambetta's theoretical framework succeeded in applying the law of supply and demand, one of the fundamental principles governing an economy, to explore the emergence mechanism of the Sicilian mafia. Based on extensive empirical research in post-Soviet Russia, Varese pioneered the development of Gambetta's framework by applying the mafia theory across countries. Gambetta's model of mafia emergence, however, neglects the importance of social capital in the process of mafia emergence. This book develops a new theoretical

framework by incorporating the concept of *guanxi*—the most important Chinese variant of social capital—into the discussion of mafia emergence. The conflict between law and *guanxi*, as Chapter 3 argues, undermines China's formal legal system, providing a fertile soil for the rise of street gangs as extra-legal protectors. It further establishes that the Red Mafia, consisting of corrupt public officials, has developed into the most influential protection agency in China, which contradicts the traditional view that organized crime groups are the main suppliers in the criminal protection market.

The further development of the new theoretical framework requires researchers to adopt a more clearly comparative approach. Gambetta's theoretical framework has been used to interpret the mafia phenomenon in other countries (or areas) such as post-Soviet Russia, Japan, Hong Kong, and Bulgaria. It is worth examining how social capital in these countries (or areas) exerts influence on the rise of the mafia, and to compare the different roles social capital plays in its origins. If further research on the origins of well-established mafias in other countries arrives at a similar conclusion—that social capital appears to encourage corrupt behaviours and facilitate mafia emergence—the new framework will become a universally accepted theory. If further research demonstrates that social capital has less impact on the rise of mafias in other parts of world, it may suggest that the intertwining between social capital (*guanxi*) and mafia emergence is a uniquely Chinese phenomenon. If further research suggests that social capital plays divergent roles in state failure and the rise of mafias in different countries, this should be followed by a comprehensive examination of the underlying reasons for this.

The incorporation of social capital in the discussion of the origins of mafias challenges the theoretical foundation of the economics of organized crime. The study of Chinese extra-legal protection in this book suggests that the rise of extra-legal protectors is not only driven by the 'invisible hand' of the market but also by the 'visible hand' of social relations (see also Kleemans 2012). Economic and structural approaches are not sufficient to explain organized crime. This encourages criminologists to develop a new way of understanding organized crime in the modern world. But how and to what extent a social capital approach fills the gap deserves further research.

## China's War against Mafias

This book examines three highly related social problems in contemporary China: the Black Mafia (street gangsters as quasi law enforcers), the Red Mafia (corrupt public officials as the main supplier of extra-legal protection), and the political–criminal nexus between public officials and gang bosses. It contributes to the understanding of organized crime, corruption, and extra-legal protection by investigating how *guanxi* networks facilitate corrupt transactions within and between the public sector and the private sector, and by exploring how gang bosses and illegal entrepreneurs employ *guanxi* ties to establish mutually beneficial relationships with public officials. The Chinese government noticed the enormous threats posed by corrupt *guanxi* networks and organized a series of anti-crime and anti-corruption campaigns in order to decrease the power of the Red Mafia and destroy the collusion between the public sector and the criminal underworld.

The involvement of street gangs in selling quasi law enforcement has, however, been largely neglected by the government, which has not developed a systematic approach to tackle the rise of extra-legal enforcers. There are several reasons why this might be. First, there is no legal definition of what constitutes an extra-legal enforcement group. Chinese legislative institutions and law enforcement agencies are not able to make a clear distinction between ‘organized crime groups’ in general and the Black Mafia subcategory, a type of criminal group specializing in the provision of quasi law enforcement. The lack of clear distinction creates favourable conditions for the development of the Black Mafia. For example, crime crackdown campaigns organized by both central and local governments target only street crime, straightforward violent crime, and the political–criminal nexus but fail to curb the rise of quasi law enforcers (see Chapter 5).

Another reason quasi law enforcers are flourishing is the use of soft violence by extra-legal enforcers. China does not have any laws specifically addressing acts of soft violence such as stalking, harassment, or intimidation. Soft violence as a type of psychological abuse forces victims to make decisions unfavourable to themselves. Chapter 4 shows that soft violence is not only frequently employed by street gangsters as the main strategy of enforcement but is an effective way to distract police attention. The wide use of soft violence by street gangs suggests that the Chinese government needs to amend laws or enact new legislation to tackle this.

This chapter focuses explicitly on the ways in which the Chinese government attempts to solve the problem of rampant corruption in the public sector and tackle the re-emergence of organized crime, especially the political–criminal nexus between police officers and gang bosses. It reviews two campaigns: the ‘strike hard’ anti-crime offensive and President Xi Jinping’s crusade against corruption. Since the 1980s, the Chinese government has launched four rounds of nationwide ‘strike hard’ anti-crime campaigns (in 1983, 1996, 2001, and 2010), but the effect of these campaigns was limited and organized crime has increased exponentially alongside China’s fast-growing economy. Similarly, the Chinese leadership prefers to employ anti-corruption campaigns to tackle the emerging corruption problem. Take President Xi Jinping’s anti-corruption drive as an example. Since Xi took power in late 2012, in order to keep power ‘restricted by the cage of regulations’, he launched an anti-graft campaign, targeting both ‘tigers’ and ‘flies’—powerful leaders and lowly bureaucrats—and their associated *guanxi* networks; but whether Xi’s anti-corruption campaign can effectively protect the political and judicial system from the negative influence of *guanxi* networks remains an unanswered question. A critical examination of these anti-crime and anti-corruption campaigns offers some insights into how officials should tackle corruption, curb organized crime, and decrease the need for extra-legal protection.

## Anti-crime Campaigns

Radical changes have taken place in mainland China since China adopted reform and opening up policies in 1978. Alongside the Chinese economic miracle, organized crime has been returning to Chinese society. In the period 1978–1989, China witnessed a climbing crime rate, the growth of violent crime, and an increase

in youth violence. Available statistics for this period suggest that ‘the overall period from 1975 through 1983 was still interpreted as the most severe “high tide” of crime’ (Tanner 2000: 100) since the founding of new China in 1949.

In response, in July 1983 China’s law enforcement agencies, under the leadership of the Politics and Law Commission of the Central Committee of the Communist Party of China, embarked upon a nationwide anti-crime campaign named *Yanda* or ‘strike hard’. Tanner (2000) argues that the quick decision to start the *Yanda* campaign reflected a deep fear among the leadership that ‘without a decisive show of state force, not only would criminals not be deterred from crime, but ordinary citizens would also be unwilling to give the state the popular assistance it needs to maintain social order’ (p. 94).

Strike hard anti-crime campaigns aim to strike severe blows against two major types of criminal groups: *heishehui xingzhi zuzhi* (organizations with the character of black society) and *e’shili* (dark/evil forces) (Broadhurst 2013; Chen 2002; Chin and Godson 2006; Xia 2006; Zhang 2001b). According to Wang (2013a: 7), ‘dark forces’ refers to ‘loosely organised gangs and largely unsophisticated groups’, whilst ‘organisations with the character of black society’ refers to ‘more mature criminal syndicates’ (see also Chin and Godson 2006).

One of the main objectives of the 1983 *Yanda* was to fight against newly emerging hooligan gangs or youth gangs (Bakken 1993). In 1992, the Ministry of Public Security recognized the importance of distinguishing large, well-developed, and highly stable criminal organizations from ordinary criminal groups to eradicate serious organized crime, and thus created a new term, *heishehui xingzhi zuzhi* (organizations with the character of black society) (Trevaskes 2010: 147; Xia 2008).

A review of the Chinese-language literature suggests that three key features set organizations with the character of black society apart from ordinary criminal groups (e.g. dark forces): first, the presence of a ‘protective umbrella’ (corrupt government officials who protect gangsters and safeguard their businesses); second, the adoption of legal fronts; and third, the exercise of illegal control over a certain geographical area or economic sector (Chen 2002; Qiu 2011). In practice, ‘illegal control’ is the most fundamental criterion adopted by judges to determine whether a criminal group can be considered an organization with the character of black society (Yu 2013). The ‘strike hard’ campaigns of the 1990s and the new century therefore focused on cracking down on this type of

criminal syndicate and their protective umbrellas: corrupt government officials who safeguard gangsters.

A series of 'specialised campaigns/struggles' (*zhuangxiang zhengzhidouzheng*) have been organized by the central government over the years to tackle certain types of crime, including organized and gang crime, prostitution, drug trafficking, trafficking in women and children, and counterfeit currency (Trevaskes 2007). In addition, local governments at various levels prefer to launch strike black (*dahei*) campaigns to curb locally-based criminal groups. One of the most publicized *dahei* campaigns was the Chongqing crime crackdown (see Chapter 6).

### Xi's Anti-corruption Campaign

China's economic reforms created enormous opportunities for public officials to abuse power for private gain. In order to curb rampant corruption, the Chinese government launched anti-corruption campaigns in 1982, 1986, 1989, 1993, 1995 and President Xi Jinping's campaign starting in 2012 (Manion 2004, 2016). Compared with the first five anti-corruption campaigns, the president's ongoing anti-corruption campaign possesses two distinct features: 'longer duration and higher reach' (Li 2016; Manion 2016: 3).

As Manion estimates in her book *Corruption by Design* (2004: 163), the campaigns of the 1980s and 1990s lasted about twenty-eight months. China's newest anti-corruption campaign, launched in November 2012 when Xi took power, is still ongoing in 2016 and will continue to be an important strategy for the Chinese Communist Party to retain legitimacy during Xi's ten-year tenure. In a departure from previous efforts, which seldom removed high-ranking party officials from office, Xi's anti-corruption campaign targets 'both "tigers" (senior officials) and "flies" (low-ranking bureaucrats) in the government and state-owned enterprises' (Fu 2015: 136). Although there is a lack of sufficient evidence to support the claim that corruption has been effectively controlled at all levels, it is undeniable that Xi has succeeded in 'hunting' a number of big 'tigers'. As of 30 October 2015, this campaign has 'put eighteen members and alternate members of the Central Committee under investigation for corruption-related violations of party discipline' including former Politburo Standing Committee member Zhou Yongkang (Li 2016:2).

With the ambition of saving the party-state through anti-corruption offensives, Xi Jinping broke an unwritten rule, *'xing bu shang dafu'*, devised by Deng Xiaoping. The establishment of this rule was due to lessons from the Cultural Revolution (1966–1976), during which a number of high-ranking officials—including Liu Shaoqi and Deng Xiaoping—were purged from their positions. This unwritten rule can be directly translated as ‘high-ranking officials should not be humiliated by legal punishment’, and in the post-Mao China context, it means ‘past and present members of the Politburo Standing Committee [could] not prosecute each other’ (Broadhurst and Wang 2014: 167). The breaking of this rule by Xi Jinping means that there is no exception in fighting corruption, indicating the strength, breadth, and depth of China’s ongoing anti-corruption campaign.

### Severity, Swiftiness, and Selectivity

Campaign-style anti-corruption and anti-crime enforcement is ‘in large measure motivated by a “deterrent” theory of crime and social order management’ (Bakken 1993; Tanner 2005: 173). Campaign-style enforcement is an important public policy, originating from a culture of ‘heavy penaltyism’ (*zhongxing zhuyi*) that punishes criminals ‘severely and swiftly’ (Trevaskes 2010). As Trevaskes (2007: 24) points out, ‘severity applied as a sentencing rationale involves meting out comparatively severe punishment within the scope of the law [or the CCP Regulations on Disciplinary Punishments]’; whereas ‘swiftiness is the speeding up of the procedure to deal with targeted criminals in a timely manner’. The adoption of ‘severity and swiftiness’ by the Chinese government to punish criminals is based on two presumptions: (1) the shorter the time between the commission of a crime and the sanction, the greater the effects of the sanction; and (2) the harsher the punishment, the greater its benefits.

Western deterrence theories stress three principles of punishment: certainty, severity, and swiftiness (Burke 2001; Gibbs 1968; Zimring and Hawkins 1968). Certainty, as Burke (2001: 61) argues, ‘is more effective in deterring crime than severity of punishment’. However, China’s campaign-style enforcement emphasizes severity and swiftiness, paying less attention to the certainty of punishment (the probability of detection and conviction). In other words, selectivity, a key feature of China’s campaign-style enforcement,



explains why the Chinese government fails to curb organized crime and corruption.

China's anti-crime campaigns are selective. As Wang (2013a: 8) argues, they 'succeeded against simple street crime and basic violent crime; however, they failed to gain control over serious organised crime'. This is because organized crime is hidden and complex (Trevaskes 2010). The existing literature shows that the increasing embeddedness of organized criminal groups in China's economic and political system significantly decreases the certainty of punishment, rendering campaign-style policing relatively ineffective. For example, looking at the Nie Lei gang in the port city of Qingdao, Wang (2012b: 48) argues that the high-end entertainment clubs owned by the gang were important contributors to local tax revenue, enabling the gang to establish extensive networks with local government officials, especially police officers. In parallel, a number of recent studies, such as Chin and Godson (2006), Wang (2013b), Xia (2008), and Zhang and Chin (2008), suggest that gang bosses are able to escape punishment by establishing legal fronts and obtaining political membership in People's Congresses or People's Political Consultative Conferences. The infiltration of local economic and political systems by gang bosses reduces the certainty of punishment, raising questions about current crime control policy.

Xi's anti-corruption campaign is also criticized by international scholars for its selective application (Broadhurst and Wang 2014; Fu 2015; Lam 2015). The application of selective enforcement, as Fu points out, enables Xi Jinping to achieve three major objectives: (1) the campaign removes Xi's political enemies in central ministries and regions who have direct or indirect relationships with Zhou Yongkang, Ling Jihua, and Bo Xilai; (2) the downfall of these 'tigers' creates new vacancies that are distributed by Xi to his supporters; and (3) the campaign shows that Xi possesses extensive power to remove any disloyal officials, reaffirming the political loyalty of senior staff.

Fu (2015: 134) further argues that the aim of anti-corruption campaign 'is regime-reinforcing instead of regime-undermining'. Unequal application of anti-corruption enforcement not only enables Xi Jinping to strengthen his control over powerful regional and sectoral leaders. It also helps the Party resolve legitimacy crises that can be created by two situations: the failure of the Party to control corruption, and the effective implementation of a zero-tolerance

anti-corruption policy. Both corruption and anti-corruption bring significant challenges to the Party. Top leaders in post-Mao China have acknowledged that ‘[widespread] corruption could lead to the end of the state and anti-corruption leads to the end of the Chinese Communist Party’ (Broadhurst and Wang 2014: 158). This means that Xi Jinping has to minimize damages brought both by corruption and by anti-corruption efforts. In doing so, Xi demonstrates his willingness and capability to control corruption by punishing a number of influential ‘tigers’; meanwhile, he avoids ‘overly rigorous anti-corruption law enforcement [that] would necessarily target core supporters of the regime’ and that would lead to the loss of public trust in the whole Party (Fu 2015: 134).

## Targeting Corrupt Guanxi Networks

Guanxi networks, as Chapter 5 shows, offer effective and efficient mechanisms for guanxi practitioners to avoid the high transaction costs associated with corrupt exchanges (e.g. information asymmetry, opportunistic behaviours, and the risk of detection). Cracking down on corrupt networks is therefore a key component of China’s anti-crime and anti-corruption campaigns. Since the second national ‘strike hard’ campaign in 1996, the Chinese government has focused on cutting the ties between gangsters and government officials. Destroying the political–criminal nexus has been widely perceived by government leaders at all levels as a necessary measure in the war against serious organized crime.

Similarly, China’s top leaders have noticed the threats posed by corrupt guanxi networks to the building of a clean government; the latest anti-corruption campaign has accordingly narrowed its focus to corrupt networks comprising high-ranking officials. This section examines how Xi Jinping and Wang Qishan—head of the Central Commission for Discipline Inspection (CCDI)—managed to dismantle corrupt guanxi networks through the centralization of anti-corruption power.

Before Xi’s anti-corruption campaign, discipline inspection work was greatly undermined by local party leaders and their guanxi members. This was due to the limitations of the dual leadership mechanism, which meant that a local discipline inspection committee (DIC) worked under the dual leadership of the same-level party committee and the next-level-up DIC (Li 2016; Manion 2004; Yeo 2016). The lack of independence from local powers

prevented local disciplinary officials from acting effectively (Fu 2015). On the one hand, party committees at the provincial, municipal, and county levels tended to put economic development—a determining factor for career advancement—as top priority rather than anti-corruption work; on the other hand, some party chiefs who established their own ‘protectionist corrupt networks’ had the motivation to disrupt local DICs’ anti-corruption efforts (Manion 2016: 6). The existence of corrupt *guanxi* networks seriously undermined China’s anti-corruption investigations, as Keliher and Wu (2016: 11) observe:

At every stage, officials are prone to protect those in their networks and cover up for each other. The anticorruption agencies either have their hands tied by Party higher ups and patrons, or their officials become embedded in the departments they are supposed to investigate and subsumed by the culture of corruption. The vertical and horizontal networks enable officials to alert each other of investigations and suppress any exposure.

The Xi government, to a large extent, solves the problem (i.e. the lack of autonomy leads to ineffective discipline inspection work) through two reforms: strengthening the discipline inspection hierarchy and revamping the mechanism of the central inspection group (CIG). Two measures are employed by the CCDI to strengthen its hierarchical control over CDIs at provincial level: first, CDI heads and deputy heads are appointed directly by the CCDI; second, the initiation of corruption investigation no longer requires approval from the party committee at the same level, but instead only needs approval from the CDI at the next level up (Manion 2016: 8). The establishment of a more hierarchical disciplinary system deprives ‘the local Party Committee of exclusive control over anti-corruption investigations at equivalent local level’ (Fu 2015: 142).

Moreover, Xi’s anti-corruption campaign has revived central inspection groups (CIGs)—consisting mainly of semi-retired high-ranking officials—that are sent to the provinces, central government ministries, and state-owned enterprises to conduct ‘irregular and unannounced inspections’ (Keliher and Wu 2016: 13). The CIG has gained special prominence since Xi Jinping initiated his anti-corruption campaign. From May 2013 to October 2015, inspection groups have been sent out in eight rounds, conducting inspection work on party disciplinary enforcement in 149 government-sponsored national and regional organizations (People.cn 2016). The frequent use of this practice enables the Party to protect

inspection work from being interfered with by local powers (e.g. corrupt guanxi networks). As Fu (2015: 143) argues:

[E]ach CIG is only temporary; it has been created to carry out one particular inspection and is disbanded immediately afterwards. Group leaders and their deputies are also appointed on an ad hoc basis. The stated intention of this practice is to allow constant change of CIG leaders to avoid the inspectors being corrupted by local and sectoral interests.

Will Xi's anti-corruption campaign lead to the extinction of corrupt guanxi networks in China? The answer is disappointing. The combination of a long-term anti-corruption campaign and periodic CIG inspections, as Fu (2015: 144) further points out, serve a particular objective: 'ensuring political loyalty from provincial and ministerial leaders and other subordinates'. Xi's campaign destroys corrupt guanxi networks headed by his political rivals and other officials who are disloyal to his leadership while intentionally creating wider and stronger protectionist guanxi networks centred on Xi himself; vacancies created by the downfall of these high profile elites have been filled by his core supporters. The biggest challenge for Xi Jinping is how to develop an effective monitoring mechanism to ensure that his guanxi members practise guanxi and exercise their power in a legal and moral way.

## Marginalizing the Rule of Law

Campaign-style enforcement has played a twofold role in China's political journey towards the rule of law. On the one hand, campaigns increase the government's ability to control serious crime and rampant corruption, helping the Party to maintain legitimacy. On the other hand, 'campaigns themselves have violated the newly introduced procedural rules on law enforcement, sacrificing the implementation of due process procedures for the sake of the swiftness and severity propagated in campaign driven enforcement' (van Rooij 2009: 26).

During strike hard campaigns, three organs of criminal justice (the police, the procuratorate, and the courts), under the leadership of the Party, are encouraged to form joint case-handling offices and simplify criminal justice procedure in order to handle cases efficiently (Trevaskes 2003). 'Severity' is applied by local courts as a principle that involves meting out the harshest punishment for all crimes rather than according to the seriousness of each individual

offence; 'swiftness' refers to the acceleration of the process of investigation, prosecution, and adjudication through employing the principle of 'The Two Basics' (i.e. 'the basic facts are clear' and 'the basic evidence is conclusive') and 'avoiding the minutiae of case detail' (Trevaskes 2007: 28). By delivering swift and severe punishment, campaigns that emphasize the Party's control of the criminal justice system frustrate China's progress towards the rule of law by impeding the development of the legal profession and undermining the independence of the courts (Biddulph et al. 2012; Irwin and Willis 2014; Trevaskes 2010). Irwin and Willis (2014) point out the negative influence of politically determined crime control on the achievement of the stated goal of building a socialist rule of law:

The Chinese current control policies place an emphasis on the stated goal of 'punishing in accordance with the law' ... *yanda* is an end in itself, where, in many cases, those in political authority abuse that authority thereby producing unintended consequences, such as the denial of legal counsel, 'gray' detentions without formal charges, and human rights violations insuring conflict with the socialist rule of law policy. (p. 64)

Similarly, China's anti-corruption campaigns focusing on power maintenance erode the rule of law. In order to improve the effectiveness of anti-corruption enforcement, Xi Jinping chooses to strengthen discipline inspection work while marginalizing legal institutions in the current anti-corruption campaign. For example, the Anti-Corruption Bureau of the procuratorate, although possessing the legal power to investigate and prosecute corruption cases, plays a subordinate role in combating corruption. The marginalization of legal institutions, as Fu (2015: 149) suggests, is due to two reasons: first, the rule of law and legal institutions 'are ill-fitted to play a leading role' in achieving the ultimate aim of 'uniting the Party under its new leadership'; realizing such an aim requires the Party to rely on its own organization and disciplinary authority. Second, the Chinese government has set up a clear division of function between the internal disciplinary inspection committee and the procuratorate: the former deals with 'tigers' and the latter handles 'flies' (Fu 2016).

The monopolistic control of major corruption cases by the Party's internal disciplinary inspection committee is essential for the Party to establish credibility and a sense of truth for its anti-corruption law enforcement by selectively publicizing some cases. Meanwhile, the party's control of major corruption cases is a significant way for

top leaders to protect their core supporters from investigation and to maintain the legitimacy of the party-state by avoiding the full disclosure of all corruption cases that would generate public hostility toward the regime. The co-existence of the Party's disciplinary mechanism and the regular criminal justice system creates social injustice and distorts the rule of law: corrupt high-ranking party officials are treated leniently by the Party's disciplinary authorities and 'there is less chance for actual criminal prosecution beyond the Party discipline' (Fu 2016: 18); on the contrary, minor corruption cases committed by low- and mid-level officials are treated harshly by legal institutions.

## Conclusion

Campaign-style anti-crime and anti-corruption enforcement has significantly increased the party-state's capability of tackling rampant corruption and serious crime. The government's anti-crime and anti-corruption campaigns have earned national recognition for their great efforts to break up corrupt *guanxi* networks. The 'strike hard' campaigns of the 1990s and the new century focused on cracking down on 'protective umbrellas': police officers who offered protection to local gangsters. Xi Jinping's ongoing reforms in disciplinary inspection work protect anti-corruption activities from being corrupted by *guanxi* practice, leading to the successful destruction of a number of powerful *guanxi* networks (e.g. Zhou Yongkang and his power bases in the political-legal system).

The increasing effectiveness of campaigns is, however, accompanied with two major problems: selective enforcement and the marginalization of the rule of law. Selective enforcement leads to a low certainty of punishment, preventing the Chinese government from achieving overall victory in its war against crime and corruption. Moreover, in order to deal with serious crime and widespread corruption swiftly and severely, the government decisively bypasses legal procedures (e.g. due process) and legal institutions. The declining significance of legal institutions in campaigns impedes China's long-term goal of establishing the rule of law. To build a corruption-free government, anti-crime and anti-corruption campaigns should gradually shift power from a party-determined political mechanism to the legal mechanism that relies on independent legal institutions and the rule of law in controlling corruption in China.



# Appendix I

## The Green Gang's Ten Great Rules

- Art. 1.* After entering the Green Gang, you must respect and obey teachers. Those who do not comply with this command will be punished. According to the level of seriousness, you will be caned, expelled from the Gang or burned to death.
- Art. 2.* After entering, you must respect the Green Gang ancestors. Those who do not obey this rule will either receive warnings or be caned.
- Art. 3.* After entering, you must neither debauch a brother's wife, daughter or sister nor betray your brother(s): if you do, you will be punished. If the situation is severe, you will be burned to death.
- Art. 4.* After entering, you must neither steal brothers' money and property nor seduce brothers' wives or concubines: if you do, you will be punished. If the situation is severe, you will either be burned to death or be buried alive.
- Art. 5.* After entering, you must keep the society's secrets and treat insiders and outsiders differently: if you do not obey this rule, you will be punished. According to levels of seriousness, you will receive a warning or be expelled from the Gang or be burned to death.
- Art. 6.* After entering, you swear that if you win promotion (in the government) or become rich, you must not despise your teacher or 'family' or acknowledge a new teacher: if you do, you will be punished.
- Art. 7.* After entering, you must not break the rules: if you do, you will be punished.
- Art. 8.* After entering, you who want to earn respect must act according to the Five Constant Virtues: benevolence (*ren*), righteousness (*yi*), ritual propriety or proper conduct (*li*), wisdom (*zhi*) and sincerity (*xin*).
- Art. 9.* After entering, you must not seek personal benefit at the cost of others: if you do, you will be punished. If your behaviour leads to a severe outcome (e.g. death or serious injury), you will be burned to death.
- Art. 10.* After entering, you must not oppress the weak or the poor by employing your strength: if you do, you will be punished.

## The Green Gang's Ten Prohibitions

- Art. 1.* Father and son are prohibited from making themselves disciples to the same teacher, and they are prohibited from belonging to the same generational status group.
- Art. 2.* A disciple is prohibited from choosing another (gang) leader as a new teacher after the death of his original teacher.



- Art. 3.* A disciple is prohibited from making himself a disciple to two teachers simultaneously.
- Art. 4.* A teacher who 'closed his door' ('*guan shanmen*') is prohibited from opening his door again and recruiting new disciples.
- Art. 5.* A teacher is prohibited from recruiting a new applicant if his current disciple vetoes that new applicant.
- Art. 6.* Generational brothers are prohibited from becoming teachers to their own generation.
- Art. 7.* A senior member is prohibited from introducing new would-be disciples to a teacher who belongs to the same branch. (*This is because the rule requiring an introducer and a teacher from different branches enables criminal groups to establish wide links with other branches.*)
- Art. 8.* A disciple is prohibited from disrespecting the Green Gang ancestors, his teacher and his brothers.
- Art. 9.* A disciple is prohibited from recruiting new disciples on behalf of his teacher.
- Art. 10.* All Green Gang members are prohibited from changing their generational names (*zi*).

## Appendix II

### Interviews and Focus Group Discussions

- Jin Qigao, Professor of criminology and criminal justice, interview, Shanghai, People's Republic of China, 10 January 2012
- Mei Chuanqiang, Professor of law, interview, Chongqing, People's Republic of China, 27 December 2011
- Qiu Geping, Professor of criminology and criminal justice, interview, Shanghai, People's Republic of China, 11 January 2012
- Zhou Litai, lawyer, interview, Chongqing, People's Republic of China, 30 December 2011
- Journalist A, interview, Chongqing, People's Republic of China, 25 December 2011
- Journalist B, personal communication, e-mail message to author, 26 December 2011
- Journalist C, personal communication, e-mail message to author, 26 December 2011
- Journalist D, interview, Chongqing, People's Republic of China, 29 December 2011
- Lawyer A, interview, Shandong, People's Republic of China, 14 February 2012
- Lawyer B, interview, Shandong, People's Republic of China, 16 February 2012
- Lawyer C, interview, Shandong, People's Republic of China, 16 February 2012
- Lawyer D, interview, Shandong, People's Republic of China, 17 February 2012
- Businessman A, interview, Shandong, People's Republic of China, 6 February 2012
- Businessman B, interview, Shandong, People's Republic of China, 7 February 2012
- Businessman C, interview, Shandong, People's Republic of China, 8 February 2012
- Businessman D, interview, Shandong, People's Republic of China, 12 February 2012
- Businessman E, interview, Shandong, People's Republic of China, 17 February 2012
- Businessman F, telephone interview, 19 May 2012
- Businessman G, telephone interview, 26 May 2012

- Manager A, a local construction company, interview, Shandong, People's Republic of China, 9 January 2012
- Manager B, a local construction company, interview, Shandong, People's Republic of China, 9 February 2012
- Manager C, a private security company, interview, Shandong, People's Republic of China, 15 February 2012
- Manager D, a small loan company, interview, Shandong, People's Republic of China, 15 February 2012
- Prosecutor A, interview, Chongqing, People's Republic of China, 21 December 2011
- Prosecutor B, interview, Chongqing, People's Republic of China, 24 December 2011
- Government official A, interview, Shandong, People's Republic of China, 8 February 2012
- Government official B, interview, Shandong, People's Republic of China, 12 February 2012
- Judge A, interview, Shandong, People's Republic of China, 29 January 2012
- Police officer A, interview, Shandong, People's Republic of China, 9 January 2012
- Police officer B, interview, Shandong, People's Republic of China, 10 February 2012
- Taxi driver A, interview, Chongqing, People's Republic of China, 20 December 2011
- Taxi driver B, interview, Chongqing, People's Republic of China, 24 December 2011
- Taxi driver C, interview, Chongqing, People's Republic of China, 2 January 2012
- Focus group discussion A, police officers and prosecutors, Chongqing, People's Republic of China, 20 December 2011
- Focus group discussion B, community members, Shandong, People's Republic of China, 30 January 2012
- Focus group discussion C, senior managers from small loan companies, Shandong, People's Republic of China, 7 February 2012
- Focus group discussion D, police officers and businessmen, Shandong, People's Republic of China, 7 February 2012
- Focus group discussion E, construction company managers, Shandong, People's Republic of China, 9 February 2012
- Focus group discussion F, hospital managers and businessmen, Shandong, People's Republic of China, 9 February 2012
- Focus group discussion G, construction company managers and a businessman, Shandong, People's Republic of China, 9 February 2012
- Focus group discussion H, a judge, a lawyer, and a businessman, Shandong, People's Republic of China, 10 February 2012

- Focus group discussion I, businessmen, Shandong, People's Republic of China, 11 February 2012
- Former military officer A, interview, Tianjin, People's Republic of China, 21 March 2015
- Former military officer B, interview, Tianjin, People's Republic of China, 1 April 2015
- Former military officer C, interview, Tianjin, People's Republic of China, 2 April 2015
- Former military officer D, interview, Tianjin, People's Republic of China, 3 April 2015
- Military researcher E, interview, Beijing, People's Republic of China, 4 April 2015
- Military officer F, interview, Beijing, People's Republic of China, 5 April 2015
- Former military officer G, interview, Beijing, People's Republic of China, 5 April 2015
- Military officer H, interview, Beijing, People's Republic of China, 6 April 2015
- Military officer I, interview, Beijing, People's Republic of China, 6 April 2015
- Former military officer J, interview, Beijing, People's Republic of China, 5 April 2015
- Former military officer K, interview, Beijing, People's Republic of China, 6 April 2015
- Former military officer L, interview, Tianjin, People's Republic of China, 7 April 2015
- Former military officer M, interview, Tianjin, People's Republic of China, 7 April 2015
- Former military officer N, interview, Tianjin, People's Republic of China, 8 April 2015
- Former military officer O, Skype interview, 2 June 2015
- Former military officer P, Skype interview, 15 October 2015
- Former military officer Q, Skype interview, 15 November 2015
- Former military officer R, interview, Hong Kong, People's Republic of China, 18 November 2015
- Former military officer S, Skype interview, 2 December 2015
- Former military officer T, Skype interview, 4 December 2015



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