

White Paper

China - Tackling corruption: Politics and Policy: A look at the new emerging trends from China



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The nature of corruption varies from country to country. In Asia, China included, bribery is an ancient problem engraved in cultures and the way of doing business. There are even old children's stories of corrupt animals and magistrates. Facilitation payments and gift-giving are common. In China, this is exacerbated by the fact that wealth is mostly concentrated in the hands of Communist Party members. Corruption in the country functions in organised schemes, fuelling promotions, the cheap sale of public assets to private individuals (usually party members) and the acquisition of easier access to government contracts. Corruption in the country touches every aspect of life, reaching into education, healthcare, and the criminal justice system. According to the 2017 Global Corruption Barometer, 26% of respondents in China had paid bribes.¹

All of this directly hinders the Chinese economy in various ways, from tax evasion and money laundering to the increased cost of doing business.

PRESIDENT XI'S CRUSHING VICTORY

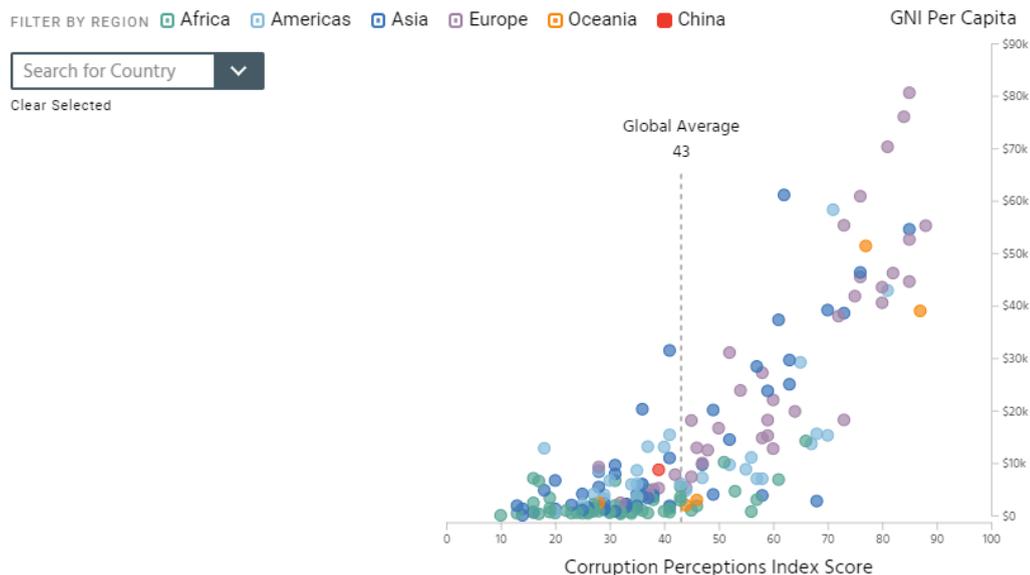
Well aware of this, President Xi Jinping set out on a fight against corruption, vowing to eradicate it. In December last year he announced a “crushing victory” in his anti-graft drive. More than 1.3 million people have been caught in the anti-corruption campaign since its launch in 2012, ranging from highest to lowest political positions.² The corruption war has targeted so many officials that Beijing's prison for the elite is running out of cells and had to cancel Lunar New Year family visits.³

Does this really mean the end of the war on corruption in China? No. In 2018, China received a Corruption Perception Index (CPI) of 39, placing it 87th out of 180 countries in total. And while this means that the country performed better than other Asian neighbours, it is still below the global average score of 43, with countries on all continents scoring higher.

¹ 07 March 2017, Transparency International, “CORRUPTION IN ASIA PACIFIC: WHAT 20,000+ PEOPLE TOLD US”, https://www.transparency.org/news/feature/corruption_in_asia_pacific_what_20000_people_told_us

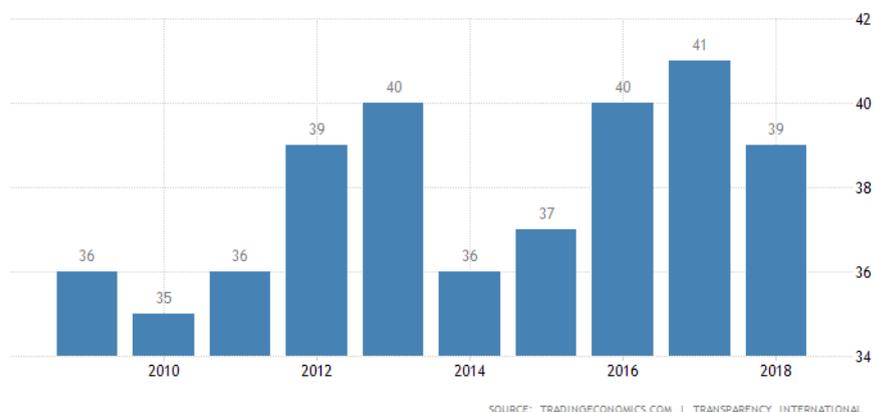
² Nectar Gan, Choi Chi-yuk, 14 December 2018, South China Morning Post, ‘Crushing victory’: what's next for Chinese President Xi Jinping's war on corruption?, <https://www.scmp.com/news/china/politics/article/2178019/crushing-victory-whats-next-chinese-president-xi-jinpings-war>

³ Choi Chi-yuk, 14 February 2018, South China Morning Post, “Xi Jinping's anti-graft drive has caught so many officials that Beijing's elite prison is running out of cells”, <https://www.scmp.com/news/china/policies-politics/article/2133251/xi-jinpings-anti-graft-drive-has-caught-so-many>



1 China CPI Score vs. Global Average CPI, Image taken from China Power

This CPI is lower than last year (41), although it should be noted that the index has been fluctuating a great deal for China in the past years, as the figure below shows:



So why does the Chinese President consider the current situation a “crushing victory”? There could be several reasons, the most probable of which are the upcoming 70th anniversary of the founding of the People's Republic of China and the way that policy targets are set. The anniversary gives the Party reasons to showcase their achievements. As for the policy targets, the Chinese system gives considerable autonomy to local officials, making centralised monitoring difficult, so targets are often set in order to get things done. It would be no surprise if President Xi’s anti-corruption campaign had set targets that have now been reached. If that is the case, it would not mean an end to the anti-graft war, but rather a change of approach or pace.

MEASURES TAKEN AGAINST CORRUPTION

On the one hand, China has made significant improvements in its anti-bribery policies and their enforcement. It revised the Criminal Procedure Law, introducing several new measures, including a procedure in respect of corruption offences that penalises defendants who have absconded overseas. The National Development and Reform Commission introduced compliance management and compliance risk identification guidance for Chinese entities with overseas operations.⁴

⁴ Mini vandePol, Simon Hui and Vivian Wu, 07 February 2019, Global Compliance News, “China’s ranking declines in Transparency International’s latest Corruption Perception Index” <https://globalcompliancenews.com/china-ranking-declines-transparency-international-2018-corruption-perception-index-20190131/>

Additionally, as part of the victory announcement, the President noted the creation of the National Supervisory Commission, which widens the reach of the anti-corruption campaign to all public servants as far as public schools and hospitals. According to Zhao Leji, the chief of the Central Commission for Discipline Inspection (CCDI), teams of anti-corruption specialists will be stationed in state-owned financial entities to manage anti-corruption measurement implementation and malpractice, including at some of China's biggest players such as the People's Insurance Group and China Life Insurance.⁵

Therefore, although there were no criteria announced for the "crushing" victory, it could be concluded that a certain level of efficiency has been reached and from here on, the Chinese government will decrease the intensity its programme and aim at improving its quality.

EXPECTED ANTI-BRIBERY MEASURES IN THE FUTURE

However, there is yet more to be expected from the country. Stronger enforcement of foreign bribery laws will be necessary to boost international investments, as trust in the Chinese economy is weak. According to a study by Transparency International of 100 companies in 15 emerging markets, Chinese entities are among the least transparent⁶, making it difficult for foreign investors to feel secure enough to deal with them. On a positive note, even though businesspeople's perception of the entities in China is negative, it has improved compared to the past. According to the EY's 15th Global Fraud Survey⁷, the number of respondents believing that corruption was widespread in Chinese companies has dropped 8 points to 16% compared with 2014 (bearing in mind it takes a long time for opinions to change and policies to be implemented).⁷

Another area that remains to be addressed is international bribery and corruption practiced by Chinese individuals and entities. China's own banks have doubled in size and loans to other developing countries exceed those by Western-backed multilateral development banks.⁸ This becomes an issue when we consider that Chinese lenders are not transparent, and loan terms are rarely released, forcing even stronger corruption suspicions.

ISSUES PUSHING CORRUPTION ON THE SIDE

However it is expected that corruption will, at least for a while, be sidelined as a Chinese priority, given the difficulties in its economy. A number of problems, including lagging exports and a simmering trade war with the United States, are pushing President Xi into a corner and some of the moves that the Chinese government made recently could be connected to dealing with this. Close monitoring of state-owned entities makes sense as a way to centralise economic efforts and priorities to deal with the current difficulties. We can also expect the country to expand the reach of its foreign projects and to push more actively towards the realisation of its Belt and Road Action Plan.

⁵ William Zheng, 06 November 2018, South China Morning Post, "Anti-corruption teams to be installed at China's state banks, insurance companies", <https://www.scmp.com/news/china/politics/article/2171994/anti-corruption-teams-be-installed-chinas-state-banks-insurance>

⁶ February 2016, Transparency International, "Transparency in Corporate Reporting", https://issuu.com/transparencyinternational/docs/2016_transparencycorporatereporti?e=2496456/37122985

⁷ Alice Shen, 25 April 2018, South China Morning Post, "Chinese companies seen as less corrupt as Xi Jinping's anti-graft campaign bites", <https://www.scmp.com/business/china-business/article/2143168/chinese-companies-seen-less-corrupt-xi-jinpings-anti-graft>

⁸ Jonathan E. Hillman, 18 January 2019, "Center for Strategic and International Studies, Corruption Flows Along China's Belt and Road", <https://www.csis.org/analysis/corruption-flows-along-chinas-belt-and-road>

CONCLUSIONS:

Looking at recent changes in China and comparing with other jurisdictions, the country is another strong illustration that in the world of compliance, there is no universal approach. Countries and regions have their specific issues that companies need to be prepared for. While money-laundering and beneficial ownership are the biggest issues in some jurisdictions, in others the risk lies in political exposure and governmental contracts. This calls for companies to pay attention to regional risk specifics and be prepared in advance. Entities doing business with Chinese enterprises should pay close attention to state-owned entities, PEPs and the international projects in which they are involved, as well as a fast-changing regulatory environment.



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