

## **Evolving Business-State Clientelism in China: The Institutional Organization of a Smuggling Operation**

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### Introduction

The massive anti-smuggling campaign launched in 1998 highlights a new clientelist interaction between private business and local state in China's market economy. I term it "suborning." It involves a private entrepreneur's takeover of a local state agency such that the agency's bureaucracy functions as the private firm's routine operations. While distinct from personalized patron-client ties long widespread in relations between entrepreneurs and officials, suborning is an outgrowth of such ties. It occurs when an expansive clientelist business strategy accumulates sufficient wealth and patrons for reinvestment in the bureaucratic technique of suborning for channeling state power to enhance the private firm's profit and protection.

This paper examines the characteristics of suborning and its place in a clientelist strategy by a case study of a smuggling operation. The perspective is institutional and organizational: smuggling is analyzed, despite its illegality (Gambetta 1993), as a business activity that is socially embedded in networks (Granovetter 1985) and that evolves by efficiency constraints within the networks (Wank 1995, 2002).<sup>o</sup> The case, called Major Case 4-20 (hereafter referred to as "Case 4-20"), was a smuggling operation centered in Xiamen City (Amoy), a special economic zone on the southern coast, that was described by the state-run media as the largest economic corruption scandal ever in the history of the People's Republic.

The paper also reappraises the patron-client concept in China's market economy. The concept entered the social science lexicon of China studies through observations from such bounded communities as Republican era villages (Fried 1953) and communist era factories and villages (Oi 1985; Walder 1986). They highlighted tactics by the weak to cultivate patrons through personalized interaction to cope with existing power asymmetries, and were signified by the terms *guanxi* and *ganqing*. Subsequent studies of patron-client ties in China's market economy

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<sup>o</sup>Studies on smuggling in China, aside from human smuggling, has received little scholarly attention. The dominant interpretation is as a center-local conflict (i.e. Ostrov; Zheng).

have drawn, explicitly or otherwise, on this view of clientelism. However, such a view no longer captures the expansive possibilities for clientelism in business. For private entrepreneurs securing patrons in the state structure through face-to-face gift-giving to produce obligations (*guanxi* practice) is but one technique. Other techniques for handling patrons have emerged that are described in this paper. Suborning is noteworthy because, while still particularistically manages power asymmetries between actors (i.e. Eisentadt and Roniger), it moves beyond obligatory norms and personal identities to a more bureaucratized interaction.

The paper is organized as follows. The next section sketches Case 4-20. Subsequent sections shall locate discussion of Case 4-20 in a debate on the consequences of deepening marketization for clientelist state-business relations in China, describe the institutional characteristics of suborning, examine the place of suborning within an expansive clientelist business strategy, and in conclusion, consider suborning in comparative perspective. The data is from media accounts of the smuggling operation and the state crackdown, including official statements, and published interviews with the entrepreneur. The interpretative framework is shaped by my previous observations (Wank 1995, 1999) of China's business-state clientelism through ethnographic fieldwork in Xiamen, Fujian province, which is also the center of smuggling in Case 4-20.

## 1. Sketch of Major Smuggling Case 4-20

Case 4-20 revolves around the Xiamen Yuanhua Group and its director, the private entrepreneur Lai Changxing (hereafter called "Boss Lai"), who built a business empire in smuggling and other business activities through clientelist ties.<sup>9</sup> Boss Lai was born in 1958 in Shaocuo Village in Jinjiang County, adjacent to Xiamen. His father was the village Communist Party secretary. He only received a third grade education due to school closings during the Cultural Revolution. He first worked on his family farm, then as a laborer for the People's Liberation Army, and as a salesperson for a small farm machinery factory. In the late 1970s, around the time of policy changes that legitimated private business, he and five friends pooled RMB¥1,000 to start an auto-parts factory in a partner's house. A year later he opened a textile machine factory and travelled around the country to sell the parts. In the 1980s he opened a clothing factory which soon became one the biggest in Fujian Province. At the time Jinjiang County was nationally known for its dynamic private sector. In this economic boom Boss Lai also opened a printing factory, an

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<sup>9</sup>This account mostly draws from three sources Hai (2001), Sheng (2001), and Qin, Zhai, and Wu (2001).

umbrella factory, cardboard box factory, electronics shop, and restaurant. By 1989 he had amassed economic capital of RMB¥40,000. In 1991, he moved to Hong Kong for new opportunities and entered the real estate market. Within two years his property values had reached RMB¥300,000,000 (Sheng 2001).

His smuggling operation began by bringing electric appliances and cigarettes into Fujian (Leggett 2001). In 1993 he moved back to Xiamen and established the Xiamen Yuanhua Electronic Corporation, Ltd, later renamed Xiamen Yuanhua Group (hereafter called "Yuanhua Group"). Registered in Hong Kong, the Yuanhua Group's main operations were in Xiamen. In 1995 the smuggling received a boost when a key patron of Boss Lai became director of the Xiamen Customs House, enabling Lai to suborn it. Smuggling ventured into steel products, cars, telecommunication equipment, vegetable oil, industrial chemicals, and processed oil. At its peak the Yuanhua Group consisted of over a dozen companies that smuggled through a web of relations with various foreign trade, administrative, customs, military, and banking organs of the state. The web wound densely through the Xiamen city government, stretched to at least three other provinces, and extended to the provincial and central state. It smuggled goods through the import/export authority of 19 public foreign trade corporations belonging to district and city governments, provincial level agencies, and the People's Liberation Army (Hai 2001:381). Other agencies also provided support as, for example, letters of credit from state banks and inside intelligence on crackdowns by the police. The total amount of smuggled goods was vast: from 1996 to 1999 the Yuanhua Group smuggled about US\$10 billion of goods that included at least 4.5 million tons of refined oil, 450,000 tons of vegetable oil, three million cases of cigarette, and 3,588 automobiles (Xinhua 2001:1)

Boss Lai reinvested his huge profits in business expansion. One reinvestment was in maintaining and expanding his clientelist network. He bought officials such lavish gifts as luxury cars and villas, paid for their children to study abroad, and subsidized their gambling, trysts with prostitutes, and expenses for mistresses. Another kind of investment was into more legitimate business. He became a major real estate developer in Xiamen, another business line that required high-level patrons in the city government urban planning and land allocation agencies. By the late 1990s the Yuanhua Group had over 2 million square meters of real estate development including an amusement park, luxury housing estates, commodity housing apartments (CITE), and planned 88-story skyscraper. Boss Lai also invested in reputation and became a major symbol of local economic development and philanthropy. His company's brand name became ubiquitous: there was Yuanhua Cigarette, Yuanhua International Center, Yuanhua Wine, Yuanhua Shopping Center, Yuanhua Entertainment City, Yuanhua Movie Studio, and Yuanhua Football Team. In his home village he paved its only road, donated money

to a hospital, built a school for the disadvantaged and a home for the elderly (Leggett 2001).

The anti-smuggling campaign that led to the crackdown against the Yuanhua Group was stimulated by heightened state concerns on the eve of China's entry into the World Trade Organization. These included the huge loss of foreign trade revenue, estimated at US\$3.6 billion by the Yuanhua Group alone, fluctuations in domestic oil prices and other smuggled commodities, complaints of unfair competition from state enterprises, and the state's desire to show international audiences that it could govern its economy. Altogether 15 coastal towns and cities were targeted for investigation. The investigations were resisted, violently at times, by local governments and party branches. The central state responded by bringing in outside investigative personnel, from interrogators and accountants to police and cooks, because local officials could not be trusted (CITE). The Xiamen investigation was a massive undertaking with 1,000 officials working 15 hours a day. They investigated each commodity, starting with oil, and moving on to cigarettes, vehicles, and raw chemical industrial materials to uncover the amounts smuggled, and the companies, agencies, and officials involved.<sup>9</sup> They scoured thousands of account books, interrogated hundreds of officials and military officers, sifted through tips from 1,200 letters, 700 phone calls, and 160 visits by informants, and traveled in China and Southeast Asia to pursue leads (Qin, Zhai, and Wu 2001: 11). For many implicated officials the Yuanhua Group was not their only client and so investigators also uncovered other cases of smuggling and corruption. The investigation also moved vertically, even touching the Politburo until President Jiang Zemin quashed pursuit of this lead.<sup>9</sup>

The anti-smuggling campaign had dramatic results. State statistics suggested a favorable economic impact. Customs revenue rose to RMB\$224 billion in 2002, a 41 percent increase over the previous year (Xinhua 2001a:1) while in Xiamen and

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<sup>9</sup>Each investigation began by examining trade statistics to note discrepancies which indicated smuggled goods. For example, in the case of finished oil investigators found that from 1996 to 1998 the Xiamen Customs House had recorded 2.7 million tons of refined oil as declared imports but that two firms, the Xiamen Overseas Shipping Agent Company and the Xiamen Overseas Shipping Company had recorded 6 million tons of finished oil as declared imports. This revealed the smuggling of almost 4 million tons of finished oil products (Qin, Zhai, and Wu 2001:9).

<sup>9</sup>One of Boss Lai's alleged patrons was Lin Youfang, former head of Fujian province's largest state-run trading corporation that provided cover for Boss Lai's smuggled imports. Director Lin was married to Jia Qinglin, the new Party secretary of Beijing, brought into clean up the city government after a corruption scandal involving the previous Party secretary. Party Secretary Jia was also protege of Jiang Zemin and member of the Politburo. Rumors circulated throughout China and foreign media of Party Secretary's Jia's divorce from Director Lin to protect his career. The state-run media took the unusual step of denying the divorce even though no charges had been officially made and President Jiang appeared in public with Party Secretary Jia in a show of support (CITE).

other smuggling centers it increased many times. Xiamen's statistics also showed economic improvement as its GDP increased by 15 percent in both 1999 and 2000 (Qin, Zhao, and Wu 2001:13). Prices of previously smuggled commodities rose, mollifying state enterprises that had protested about unfair competition. Over 700 corrupt officials were charged with abetting Yuanhua Group smuggling and tried and sentenced in a publicized show of state resolve to fight corruption in its own ranks. However, the campaign also had other outcomes. There were visible economic downturns in coastal regions, rosy statistics notwithstanding, with many store fronts shuttered and fewer customers in once-bustling commercial areas (Rosenthal 2000:1). Price increases also seemed likely to heighten social tensions by raising living costs for low-income groups, including state enterprise employees, and bankrupting private factories that relied on such low-cost smuggled inputs as cloth and plastic. It also stoked popular perceptions of a cover-up to shield central officials who were involved. As for Boss Lai, he was tipped off and fled to Canada while the official who warned him was executed.<sup>o</sup>

## 2. Debate on Changing State-Business Ties

The institutional organization of the smuggling operation directly engages the question of changes in state-business clientelism during marketization. A number of scholars have documented the rise of clientelist ties between private business and the local state during marketization (Bruun 1993, 1995; Choi and Zhou 2001; Li 1995; Nee 1991; Pearson 1997; Solinger 1992; Tsang 1996; Wank 1995, 1999; Young 1992). To varying degrees they see clientelist ties as mixes of money calculations and normative obligations. Some emphasize the extortive aspects of the relation as officials preying on private firms (i.e. Bruun 1993; Young 1992) while others emphasize the mutually beneficial exchange of political power for economic wealth (i.e. Solinger 1992; Wank 1995).<sup>o</sup>

This raises the trenchant question of what happens to state-business clientelist interactions as marketization deepens? One answer is that emerging markets erode the inequalities in access to goods and opportunities that cause citizens to seek

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<sup>o</sup>Boss Lai is currently under house arrest in Vancouver. China is seeking to extradite him but Canada does not extradite to such that have capital punishment, such as China. China has promised not to execute him although many of his patrons have already been. The option to return him to Hong Kong, the departure point for his flight to Canada, is complicated because China would then request Hong Kong to hand him over. As Hong Kong seeks to maintain autonomy from China, it wants to avoid this situation, and has not filed an extradition request (CITE).

<sup>o</sup>Various exchanges are described in Wank (1995).

patrons in the state (i.e. Nee 1989; Shi 1993; Zhang 1994). Another is that proliferating rent-seeking opportunities in hybrid economy (a mix of plan and market institutions) heightens the importance of political power and stimulates private entrepreneurs to forge ties with state agents (i.e. Choi and Zhou 2001; Nee 1991; Solinger 1992). Many of these answers are quite speculative or tautological.<sup>o</sup> The few that ground hypotheses in statistical data use individuated variables (i.e. respondents' income and status) rather than relational ones (the transactions): consequently they only measure relative gains and losses to classes and groups but not changes in clientelist transactions, despite claims to the contrary.<sup>o</sup>

One study grounded in survey data that seeks insight into the ties themselves is Doug Guthrie's claim for the "declining significance of *guanxi*" (Guthrie 1998). Although based on observations from state enterprise managers in Shanghai his claim is presented as an insight into the market economy in general. Therefore it deserves consideration for its implications for private business. The survey is interviews with managers on whether political connections cultivated through *guanxi* practice (gift-giving and obligation) or standard market factors (price and law) are more important in making business decisions. Based on the respondents' answers Guthrie claims the declining significance of *guanxi*-practice ties through two processes. First, intensifying market competition renders advantages derived from the price and quality of goods and service increasingly important relative to advantages in irregular administration derived from ties with office holders. Secondly, the proliferation of new laws increasingly causes economic actors to see the use of gifting-giving ties to bypass standard administrative procedures as illegitimate and to eschew this.

Yet Guthrie's account is theoretically problematic because it conflates the decline of gift-giving (*guanxi* practice) to cultivate political connections with the declining utility *in toto* of cultivating political connections.<sup>o</sup> His account of change is

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<sup>o</sup>One common tautology sees change as a transition from an ideal-typical plan to market economy. The tautology is the apriori definition of markets as horizontal transactions so that any growth of the market economy is by definition the relative decline of clientelism.

<sup>o</sup>One survey shows relative income gains early in the market reform to non-cadres: this is said to document the declining importance of patronage (Nee 1989). Another study sees income gains to private entrepreneurs who were formerly cadres later in the market reform: this is said to document the growing importance of political connections (Choi and Zhou 2001). But without data on the transactions that produced the income it is impossible to know the significance of changes in income distribution for the shifting relative proportion of the different kinds of transactions in the market economy.

<sup>o</sup>Guthrie's claim for the declining significance of clientelism is data driven because the respondents say that laws are becoming more "important" than *guanxi*. However, it is unclear what the managers mean by "important." Do they mean that the proliferation of laws makes *guanxi* practice morally wrong? Or do they mean that new laws makes its use more dangerous? This is an important distinction because each could undergird very different behaviors. As the former

an implicitly dichotomous model which juxtaposes gift-giving and obligatory norms, on the one hand, with price calculations and legal norms on the other. Thus the decline of *guanxi*-practice clientelism corresponds to the rise of standard market relations (*shangye guanxi*) in Guthrie's dichotomous model of change. The possibility for the decline of *guanxi*-practice clientelism to indicate the emergence of something else, such as other techniques to cultivate political connections, is precluded *apriori* by the very limited courses of change in a dichotomous model.

The other problematic is methodological and derives from using the situation of state enterprise managers for insight into the situation of other economic actors.<sup>9</sup> State enterprise managers are at the top of the state's economic bureaucracies. They are the least likely of any economic actors to use *guanxi* practice to cultivate patrons. This is because *guanxi* practice is a "weapon of the weak" and a strategy for those at the bottom of hierarchies to gain access to state power (Yang 1994).<sup>9</sup> State managers can derive special consideration from administrative bureaus because, as Guthrie's data also shows (CITE), bureaus favor them through institutional bias and favoritism. Therefore the managers are not likely to even consider cultivating *guanxi*-practice political connections because they already enjoy advantages by virtue of position within the state apparatus. The difference between the state managers and private entrepreneurs is therefore structural rather than evolutionary and insights from one are not readily applicable to the other.

This paper accounts for changing patron-client ties in the growing market economy. My basic conceptual move is to decouple the concept of *guanxi*-practice from that of patron-client ties. I therefore see business-state clientelist relations as capable of innovative evolution of techniques in the growing market economy (Wank 1995, 1999). This innovation can occur in an expansive business strategy constantly seeking new opportunities and markets by trading up to patrons of higher

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emphasizes morality, it could lead managers to eschew cultivating political connections altogether as wrong while the latter, emphasizing risk concerns, could stimulate managers to seek less dangerous techniques for cultivating political connections. I discuss these theoretical problems at length elsewhere (see Wank 2002).

<sup>9</sup>Guthrie notes that his findings may only apply to state enterprise managers at the present time. This is because state enterprises managers are more closely disciplined by the state they more readily absorb new legal norms that lead them to eschew *guanxi*-practice cultivation of political ties. Presumably it is only a matter of time before these new legal norms affect perceptions of those further down the economic hierarchy, such as private entrepreneurs. By contrast, my point is that state enterprise managers are structurally predisposed not to use *guanxi*-practice for political advantage. Rather than see state enterprise managers as a vanguard for changes that will eventually ramify throughout the market economy, I view economic actors as occupying structurally discrete positions with different constraints. Other comparative studies of private entrepreneurs and state enterprises managers also suggest that private entrepreneurs are more likely to use *guanxi* with officials in business than state enterprise managers (Peng and Luo 2000; Xin and Pearce 1996) to compensate for their structural lack of political power.

<sup>9</sup>Guthrie explicitly frames his argument as a critique of Yang's definition of *guanxi*.

rank. However, an entrepreneur pursuing an expansive clientelist business strategy quickly bumps up against an efficiency constraint: face-to-face gift-giving becomes increasingly costly in terms of time as the number of patrons grows (Wank 1995). Suborning and other techniques described below are responses to this constraint.

Let me also briefly consider the use of Case 4-20 for insights on state-business interaction. Much private business occurs through activities that take advantage of loopholes and ambiguities in state policies and are of dubious legality. Indeed, this "walking on the edge of the policy" is seen by many entrepreneurs as the greatest althoughbeit riskiest profit opportunities. Therefore, strict distinctions between legal and non-legal business or between legitimate and illegitimate economic activities are not very useful in understanding how private business operate (CITE). In my research in Xiamen in the late 1980s I found that many expansive private firms also pursued foreign trade through dubious techniques (Wank 1999), although not on the scale of the Yuanhua Group. Also, despite its reputation for smuggling, the Yuanhua Group was a diversified corporation engaged in a variety of activities, none of which appear to have been as blatantly illegal as the smuggling. Before he gained notoriety as a smuggling king, Boss Lai was a highly successful entrepreneur in Fujian province. Therefore, analysis of Case 4-20 shows one possible development of a private firm to upgrade its clientelist ties (Wank 2002).

### 3. Characteristics of the Suborned State Agency

The Xiamen Customs House was the suborned agency in the smuggling operation. So thoroughly did Boss Lai's authority permeate it that he was called the "underground director" of the Custom House. This suborning had four characteristics.

First, two networks of clientelist ties integrated the Customs House into Yuanhua Group smuggling operations. One network was between Boss Lai and the Customs House leadership. This gave the Yuanhua Group access to the top of the authority hierarchy in the Customs House. Boss Lai's ties included the Customs House director, Yang Qianxian, as well its deputy director, and heads of such key offices as the Investigation Bureau. The acquiescence of these leading officials was necessary to establish routines and coordinate personnel to move Boss Lai's goods through customs without paying duties. The other network was at the bottom of the Customs House hierarchy. It was forged by 18 former low-level staff of the Customs House who were hired by the Yuanhua Group. Nicknamed the "overseas corps", they gave access to the front-line Customs House staff who actually inspected goods and assessed values. This dual track enabled the Yuanhua Group to work out operating procedures with staff lower in the hierarchy and have them

legitimated by the leaders in the upper hierarchy. It alleviated the necessity for the Customs House leadership to directly command its staff to engage in irregular administrative procedures, thereby maintaining a semblance of normal hierarchical authority to facilitate the routinization of irregular procedures.

Second, administrative routines were erected to support the evasion of customs duty to benefit the Yuanhua Group. In the basic routine specific containers in a shipment were flagged for inspection. The flagged containers held lower duty goods, such as wood pulp and polypropylene, resulting in lower tax assessments for the entire shipment. For example in a single shipment in April 1999 declared as "wood pulp", 24,380 cases of cigarettes were smuggled in, evading import duties of over RMB¥100 million. On a regular basis customs personnel replaced high-duty goods in containers with low-duty ones, falsified paperwork on the amounts and values of goods, authorized special docks for handling Yuanhua Group shipments, and recovered Yuanhua Group goods confiscated by other agencies (Qing, Zhai, and Wu 2001:2-4).

Third, the needs and desires of the suborner, Boss Lai, rather than standard agency criteria determined personnel transfers and promotions in the Customs House. Director Yang regularly consulted Boss Lai and sought his approval before promoting cadres, removing cadres from key posts, or exchanging cadres with other departments. For example, Director Yang placed a trusted aide as deputy director of the Tongan Office of the Customs House, a key smuggling site for the Yuanhua Group. In anticipation that Boss Lai would smuggle goods through the separate Dongshan customs area, Director Yang arranged for another trusted aid to be its deputy director (Qing, Zhai, and Wu 2001:4).

Fourth, Boss Lai displaced the Customs House leadership in profiting from the agency's rent-seeking. He demanded fees from other private entrepreneurs smuggling goods into the Xiamen customs zone. These fees, called "water fee", "cabinet fee", "exclusive tax expense", and "passage fee", let them use the Customs House's administration to smuggle goods through the Xiamen customs zone. Failure to secure Boss Lai's permission in advance would result in him tipping off the Customs House or other border control and law enforcement agencies to seize the goods. Boss Lai assessed his own RMB¥50,000 to RMB¥120,000 "customs inspection charge" on each vehicle and RMB¥100,000 charge on every container of cigarettes smuggled in. Smugglers of oil products had to apply in advance to Boss Lai for "import quotas" and then pay him 70 percent of the profit (Qing, Zhai, and Wu 2001:4). These fees generated income recorded in Yuanhua Group account books of over RMB¥100 million in 1995, over RMB¥200 million in 1996 and 1997, and RMB¥700 million in the first seven months of 1998 (Hai 2001: 314)

#### 4. A Clientelist Business Strategy

The suborning in Case 4-20 is one technique within an expansive clientelist strategy. The Customs House and its officials functioned as a key link in a smuggling operation embedded in a patronage web encompassing production, distribution, policing, banking, military, and border maintenance organs of the state. This section will elaborate the position of suborning in the clientelist organization by describing Boss Lai's basic clientelist strategy, the emergence of other techniques as responses to the efficiency constraint, and suborning as a further innovative response.

##### *Expansive Clientelism*

An expansive clientelist business strategy seeks advantages in information and administration by ties with state agents in the competition to maximize profits and protection. These ties can provide particularistic access to physical assets, administrative procedure, and policy information. It is expansive because business growth comes to be embedded not only in the resources forthcoming from existing patrons but also in ongoing cultivation of ever more highly ranked state agents. Therefore business growth is embedded in an opportunity structure that shifts with the ascending rank of newer patrons who give access to the advantages of higher levels of state power.

Boss Lai began acquiring patrons early in his career by cultivating ties with local officials in Jinjiang county through the gift-giving to create obligation. He gave them free meals, home appliances, and foreign-made leather briefcases. As his network reached to higher-ranking officials, the value of gifts soared and increasingly included cash. Customs House Director Yang is an example of this escalating gift value linked to bureaucratic rank. Boss Lai was introduced to him in the mid-1980s when Director Yang headed the Xiamen Customs House Investigation Office and often went to grassroots society to investigate smuggling cases. Boss Lai gave him free meals at his restaurant and tips on smuggling cases. After Boss Lai moved to Hong Kong in 1991 he treated Director Yang during his visits there to expensive hotels and meals (Hai 2001:36). When Director Yang became head of the Customs House the gift values rose further: a Lexus 400 luxury sedan worth RMB¥630,000; a rare South China tiger pelt bought for RMB¥777,000; introduction to a mistress, villas for them in Hong Kong and Xiamen, and RMB¥10 million towards expenses (Qin, Zhai, and Wu 2001: 6). An example of cash gifts concerns Xiamen vice mayor Lan Fu. Boss Lai gave him AUS\$300,000 to buy a house in Australia for his son who was studying there and sent persons to accompany Vice Mayor Lan to casinos to cover his gambling losses (Qin, Zhai, and Wu 2001:6).

Boss Lai assiduously worked to upgrade his connections to higher-ranking

officials. One way was to frequent places where officials gathered. For example, early in his career he opened an electronics store in the county seat of Jinjiang County in a building owned by the local Public Security Bureau and police officials frequently dropped by. This enabled Boss Lai to meet many local police officers. Later in his career he frequented top hotels and restaurants in Beijing where he could not only entertain elite officials but also meet other officials who stopped by greet to the official he was entertaining. Another way of upgrading was to help patrons achieve higher ranks by giving them funds to lobby for promotion. He helped several promising young officials he met in the 1980s to attain higher ranks that became key to his smuggling. This included the deputy director of the Public Security Bureau in Jinjiang county Zhang Rushun who rose to be Public Security Bureau director for the provincial capital of Fuzhou and deputy director of Fujian province public security. It also included Director Yang of the Customs House. Boss Lai gave him RMB¥100,000 to seek promotion to directorship of the Xiamen Customs House. Presumably Yang used the funds to entertain superiors who could influence the appointment and in 1995 became, at age 40, China's youngest director ([www.people.com.cn](http://www.people.com.cn) 2001/10/18:1).

As Boss Lai upgraded to higher levels of power the benefits provided by patrons changed. Those from lower-ranking officials emphasized irregular administrative decisions to enhance both profit and protection. For example, the front-line staff in the Customs House filed false paperwork that both enhanced Boss Lai's profits through evaded duties while covering up the evasion. In contrast, higher level officials rarely made decisions that created profit opportunities for Boss Lai or the Yuanhua Group. Instead, they served as "protective umbrellas" by giving insider information on upcoming campaigns and policy changes. This information was crucial to Boss Lai because it let him plan for future policy changes and economic campaigns. Trading up also had ancillary benefit in disciplining lower-ranking patrons. As his patronage networks reached higher, Boss Lai's lower-ranking patrons must have felt unease that their client had patrons who outranked them. They might have worried that failure to accede to Boss Lai's demands could invite retribution from superiors armed with information provided by Boss Lai on their noncompliance. Boss Lai's move to Beijing to cultivate national leaders no doubt created further uncertainties for provincial and city-level patrons.

Boss Lai always took care to maintain the appearance of proffering gifts out of personal concern for the needs of an official rather than as a quid pro quo exchange. This imparted an open-ended quality to the exchange which permitted Boss Lai to bank his claim and use when needed. For example, when giving home appliances to officials he might have said such things as, "Take this home and let your family see it." When giving money he might have said, "This is some money for your children's education." According to reports, he gave Director Yang the aforementioned tiger

pelt to ward off evil and, when proffering the Lexus, said "It is very inconvenient for you to pay me private visits by official cars, so I'd like to give you a car for your spare-time use (CITE)." And cash gifts were always referred to as "holiday gift, "overtime gift", "lunar New Year gift", and "loan" (Qin, Zhai, and Wu 2001: 5).

The sense of obligation these gifts generated produced significant support for Boss Lai and the Yuanhua Group. Recipients came to anticipate the desires of Boss Lai and needs of the Yuanhua Group and accommodate them without any requests being articulated. For example, the Xiamen deputy mayor Zhao Keming, responsible for land and city construction administration and nicknamed the "Land God", routinely approved Yuanhua Group real estate projects when they came across his desk (Yu 2001:4-5). At the provincial level Deputy Director of the Fujian Public Security Bureau Zhang Rushun not only helped him smuggle cars but even called Boss Lai at least 20 times to discuss his escape plans and tipped him off when investigators were coming to arrest him (CITE). At the national level Ji Shengde, head of intelligence operations for the People's Liberation Army, arranged partnerships between the military's commercial companies and the Yuanhua Group that provided cover for smuggling refined oil and other goods (CITE).

Officials who received his gifts were also motivated to accommodate Boss Lai from fear of the consequences for failure to do so. Beginning in the 1980s detailed national regulations proscribing market-based forms of corruption were issued and anti-corruption campaigns that solicited anonymous tips from the general public became recurring. In this context an official's acceptance of a gift or favor from Boss Lai or one of his representatives was damning evidence held by Boss Lai of the official's malfeasance, creating the potential for blackmail. The power relations of knowledge also worked in favor of Boss Lai. Any single official had only piecemeal knowledge of Boss Lai's business because Boss Lai operated through a system of one-way contacts and spread his trade over a number of companies. Boss Lai's knowledge of an official's malfeasance was therefore more complete than an official's knowledge of Boss Lai's corruption.

### *Efficiency Constraints*

A key efficiency constraint on an expansive clientelist operation is that cultivating the ties becomes increasingly time-consuming as the number of patrons grows. The danger is that without sufficient investment of time gifts become poorly selected and clumsily given. This causes a patron to feel insult, anger, and embarrassment and to reduce further contact. Thus, as the number of patrons grows, it becomes increasingly difficult for an entrepreneur to devote adequate time to each and such misunderstandings can increase, reducing the efficacy of patron support. This increasing efficiency constraint in an expansive clientelist operation promotes a shift away from *guanxi*-practice interactions in cultivating patrons to other techniques

that entail less time investment by the entrepreneur.

This efficiency constraint is illustrated by Boss Lai's cultivation of Jie Peiyong, deputy director of the Customs House and director of its Investigation Bureau. Deputy Director Jie refused Boss Lai's initial offer of money to send his son abroad to study and to support his brother in Hong Kong. By gathering intelligence on Deputy Director Pei's interests, Boss Lai learned that he liked calligraphy, painting and handwriting. Thereupon, Boss Lai gave gifts attuned to these interests: an out-of-print set of 175 books titled *Mao Zedong's Comment on the Twenty-Four Histories*; a painting of a peony collectively done by nine famous modern painters; some calligraphy by famous modern calligraphers. He also flattered Deputy Director Jie by asking for his calligraphy on the label of Yuanhua brand cigarettes and the name of the Yuanhua Football Team (Yu 2001:5-6). While all this succeeded in getting Deputy Director Jie's cooperation, it required much time investment to gain intelligence, consider appropriate gifts, set-up giving opportunities, and proffer them face-to-face.

In response to the intensifying efficiency constraint, Boss Lai implemented techniques to reduce the time investment for cultivating patrons. One was to "routinize" ties with officials as salaries and fees that were regularly disbursed without time consumed in considering the appropriateness or the giving opportunity. This is illustrated in the aforementioned overseas corps of former Customs House low-level staff who were hired by the Yuanhua Group at large salaries to supervise the movement of smuggled goods through customs. One such employee was Hou Xiaohu, formerly a young front-line staffer on a customs dock who became the vice-general director of the Yuanhua Group and handled passage of goods through customs. Another employee was Vice Chief Hong Gongti of the Huli District government where much of the smuggling operation and Boss Lai's private club was located. After Vice Chief Hong was hired he became general director of the Yuanhua Group. However, routinization was only effective for handling lower-level officials and relations with higher officials were still by *guanxi*-practice gift-giving.

Another technique was "delegation." This entailed the hiring persons who then maintained their own clientelist ties on behalf of the Yuanhua Group. This can be seen in the aforementioned overseas corps. Hiring these former Custom House staffers institutionalized their networks as part of the resources of the company, while delegating network maintenance to these employees.<sup>o</sup> It can also be seen in the hiring of offspring of high-ranking officials and military officers. For example, the daughter of a high ranking naval officer was the head of the sales department at

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<sup>o</sup>This suggests that the techniques are not mutually exclusive. For example, delegation can overlap with routinization as is apparent in the hiring of the offspring of military officers. Routinization can also include the technique of distancing as seen in the case of former officials who become employees of the Yuanhua Group and receive salaries.

Yuanhua City, one of Boss Lai's large real estate development projects (Pomfret 2000:2). This institutionalized as Yuanhua Group resources both the offsprings' general networks stemming from parents' status and their ties with their parents. It also enhanced the likelihood of future support from the parents who no doubt felt some obligation or at least concern for the Yuanhua Group as their sons' and daughters' employer.<sup>o</sup>

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<sup>o</sup>Hiring the offspring of military officers also enhanced the reputation of the Yuanhua Group. These employees were visible symbols to Xiamen city officials and regular customers alike of Boss Lai's connections to power.

For delegating the cultivation of more powerful patrons, Boss Lai also relied close family members. Altogether about 20 to 30 siblings, in-laws, nephews, and others worked in the Yuanhua Group in such key positions as board members and managers. Each worked in a distinct area and presumably handled patron relations relevant to that area. Much of this specialization was along product lines. For example, his brothers Lai Changbiao and Lai Shuiqiang, and sister Lai Qiuju handled cigarette smuggling while his brother Lai Changtu and brother-in-law Zeng Mingtie managed automobile smuggling. Some specialized by geographic site. For example, his nephew Lai Wenfeng oversaw the Yuanhua Group's Hong Kong branch to handle the dispatch of goods and help arrange financing (Chen, Chang, and Wang 2001:4-5, Hai 2001:245-251).

Yet even as Boss Lai increasingly relied on delegation, he made sure that he personally handled the highest-ranking patrons. In 1997, with Xiamen-based patrons delegated to family members and key employees, Boss Lai moved to Beijing to further ties at the center. One way was to stay in the presidential suite at a top hotel and dine with leading officials and their wives. These social encounters gave him information on the needs of the high-level patrons to help prepare appropriate gifts. For example, over meals Mr. Li Jizhou, Director General of China's Ministry of Public Security, and his wife told Boss Lai that Mrs. Li was starting a company and that their daughter was living in San Francisco. Boss Lai immediately loaned Mrs. Li RMB¥1 million "loan" and remitted US\$500,000 to their daughter. Another way was to acquaint himself with the personal secretaries of national leaders. Boss Lai obtained a special car license plate that permitted him to enter Zhongnanhai, the residential compound of the top leadership, where he played cards with their secretaries. He claimed to know three secretaries and the driver of China's President Jiang Zemin, and two secretaries of Prime Minister Zhu Rongji. These ties mostly provided protection through insider information on the newest policies and political and economic campaigns.

Yet even these aforementioned techniques could not meet the intensifying efficiency constraint and so Boss Lai pursued yet another technique that I term "distancing". This entails distributing gifts without time-consuming face-to-face interaction. Some gifts remained attuned to specific needs. For example Boss Lai became a partner in a Hong Kong-based casino boat that visited Xiamen. Patrons could gamble on the boat and collect winnings without having to pay out losings, a cash gift that did not require Boss Lai's presence. Boss Lai also paid for officials' overseas study tours that might include side-trips to Las Vegas and other gambling centers, and the tuition for their children's study abroad. Some gifts were given at mass gatherings with Boss Lai present but not individually proffering gifts. One such venue was huge parties where guests were treated to exquisite food and gift packets. For example, the 2,000 guests who attended the ground breaking ceremony for his

88-story Yuanhua International Center supped on sharksfin, bird's nest and other delicacies and received RMB¥3,000 of presents that included a bottle of Martell, two cartons of cigarettes, and a red envelop with RMB¥1,000 (CITE).

The logical extreme of distancing was the construction of a private club for important patrons in the city government and locally-based military, and as a perk for key employees. Called the Red Mansion, it was a seven-story building on the outskirts of Xiamen near Boss Lai's private dock. Under its modest facade were opulently decorated amenities including a dance hall, karaoke lounge, movie theatre, sauna and footbath facilities and five luxurious suites all attended to by a staff of attractive young women who reportedly provided sexual services. The Red Mansion opened up new possibilities for gift-giving. Officials who felt uncomfortable about taking bribes or having contact with Boss Lai could be more relaxed in accepting his favors. For example, the aforementioned Land God, Xiamen's deputy mayor Zhao Keming who controlled Xiamen's real estate development, initially rejected money from Boss Lai. A graduate of prestigious Qinghua University, he reportedly spurned this gift because he considered Boss Lai too coarse. Boss Lai overcame this reticence by giving Deputy Director Zhao access to the Red House. This gave Deputy Mayor Zhao the possibility of going to the Red Mansion for entertainment and sexual servicing on his own, avoiding both money gifts and distasteful contact with Boss Lai (Yu 2001:4-5). Construction of the Red Mansion also heightened the blackmail potential of the patron-client relation. Boss Lai reportedly installed hidden video cameras in the club's bedroom suites to record the sexual trysts of powerholders (CITE). He could use the threat of revealing the videos to enhance their future cooperation.

### *Suborning as Response to Efficiency Constraint*

Suborning is a further response to the efficiency constraint in an expansive clientelist strategy. It differs from routinization, delegation, and distancing in how it enhances efficiency. The aforementioned techniques focus on the efficiency of reward giving to individual patrons whereas suborning focuses on efficiency for coordinating the administration and staff of a bureaucratic agency.

It arises as a response to certain situations in an expanding clientelist web. First, is the increasing frequency of services required. At the height of his operation Boss Lai was smuggling goods through the Xiamen customs zone practically on a daily basis. His refined oil operation alone brought a tanker to Xiamen every three days (CITE). Constant movement of goods required ongoing communication between the Customs House and the Yuanhua Group and rapid decision-making. This, in turn, created pressure to regularize the process so that such particularistic concerns as sentiment and obligation, and rewards and reciprocity played less role in motivating employees to carry out their duties. Suborning helped ensure regular

performance of duties as a matter of routine bureaucratic authority rather than as more personal, ambiguous, and open-ended obligatory norms. Also, suborning overcame the opaqueness inherent in clientelist ties in which attempts are made to instill secrecy in the identities of patrons and the content of exchange. Such opaqueness would have hindered the rapid communication that Boss Lai needed from the Customs House.

Second, was the large number of Customs House personnel involved. Altogether about 160 staff were necessary to receive notification of incoming goods, inspect shipments on multiple docks, notify the Yuanhua group of a completed inspection, fill out paperwork, communicate with other agencies, and authorize decisions. The coordination of such a large number of persons through personalized clientelist techniques would have been precluded by the enormous expenditure of resources from the Yuanhua Group to maintain such a multitude of clientelist ties. Also, routinization through hiring was not viable because the value of the Customs House staff to the Yuanhua Group lay in their ongoing employment as officials, not as Yuanhua Group employees.

Finally, a side-benefit of suborning was the creation of a new market and income stream for the Yuanhua Group. So thorough was the Custom House's integration into the Yuanhua Group that Boss Lai could market its irregular customs procedures to other private firms. The considerable profits he reaped enabled him to recoup his investment in the two clientelist networks that penetrated the top and the bottom of the Customs House hierarchy. According to reports, Customs House personnel received a total of RMB¥50 million from Boss Lai (CITE). This figure is many times smaller than the Yuanhua Group profits from marketing Custom House services that were recorded in the firm's account books. It appears that the suborning of the Customs House was not only self-supporting but also a profit center for the Yuanhua Group.

## Conclusion

This paper has examined the evolution of state-business clientelism as seen in the case of a private firm that embraced smuggling as a business line. The key evolutionary constraint within the strategy is efficiency in the amount of time necessary to gain a patron's efficacious support. This promotes a shift away from the technique of gift giving through face-to-face interaction (*guanxi* practice) so as to maximize the returns from an entrepreneur's time investment in patrons. These include such techniques as routinization, delegation, and distancing which reduce the time invested to in the personal tie. The suborning technique differs from the previous ones by seeking efficiency in coordinating the local state bureaucracy in

which patrons hold office rather than on maintaining the personal ties with the patrons themselves. This suborning is only possible through much prior investment in patrons through personal ties accumulated through the other techniques.

This explanation is a theoretical advance on the concept of patron-client ties that has previously animated studies of clientelism in China's market economy. First, rather than view clientelism as an entity that expands or contracts in response to changes in the market environment, it considers clientelism as a bundle of strategic techniques and examines their shifts *within* the clientelist strategy. Secondly, it has decoupled the concept of personalized reciprocity as signified in the term *guanxi* from the concept of patron-client ties to argue that face-to-face gift-giving to produce obligated reciprocity is but one technique within a clientelist strategy.

The case study method of this paper also raises questions about the generalizability of suborning in business-state relations. A thick description of a single situation makes possible certain kinds of interpretations and hypotheses. First, the anti-smuggling campaign was conducted in 15 cities and towns and a clientelist strategy presumably characterized all targeted smuggling operations. However, scattered data available in media reports and state documents suggests that in none of the other 14 cases was a state agency suborned. Does this mean that Major Case 4-20 is an outlier of little relevance to understanding more general processes in the market economy? I think not. My interpretation is that these other smuggling operations were smaller and therefore did not generate the efficiency constraints that lead to suborning. For example, a case in the Zhejiang province city of Zhoushan reportedly involved RMB¥660 million in evaded duty on cigarettes and diesel oil, an amount less than 20 percent that of the evaded duty in Case 4-20 (Fong 2000:1). This smuggling was abetted by bribing the Zhejiang Customs Chief and other officials but nowhere near the numbers reported for the Major Case 4-20. Thus my interpretation focuses not on the possible uniqueness of Case 4-20 but rather on the more general principle that suborning becomes a possibility only when there is a sufficient economic and social capital accumulation to move beyond gift-giving techniques.

The analysis also suggests that suborning in China is limited to local state agencies. Even though Boss Lai's patronage ties reached all the way to the national center of state power, he only suborned a city-level agency. This appears different from the situation in other post-socialist orders. For example, in Russia the so-called oligarchs appear to dominate the various state ministries related to their business interests. The oligarchs appear to influence, among other things, leadership changes in the ministries, a key characteristic of suborning. One reason why center-level suborning has not occurred in China is that the Chinese Communist Party has avoided the massive privatization of national wealth as occurred after the collapse of the Soviet Union, in which private entrepreneurs bought huge shares of the assets

controlled by former national ministries and state enterprises (Schevchenko). Therefore, in China private entrepreneurs have not been able, thus far, to accumulate the amount of economic and social capital necessary to suborn the center.

It is also possible to speculate on which state agencies are more open to suborning. It is less likely to occur in state agencies that directly realize rent profit from physical assets fixed within their administrative and geographic jurisdictions. For example, local agencies controlling real estate or other productive assets are less susceptible to suborning because the control of land or other assets can be directly sold to buyers. In contrast, suborning is likely to involve state agencies that require throughput of physical assets originating from outside their jurisdictions in order to create significant rent-seeking profits. Customs authorities are an example because they are heavily dependent on a movement of goods originating from elsewhere through their administrative machinery. Therefore they are more likely to seek broader cooperation with business interests to gain throughput. This is seen in Case 4-20. The Yuanhua Group was heavily involved in both real estate and smuggling. Both are business lines that require huge investments in patronage. But Xiamen land planning agencies directly control real estate with market values and were not suborned. By contrast, the authority of the Customs House had a market value only if goods were brought to it geographic jurisdiction for passage through its administrative machinery. To capitalize its administrative-rent potential, the Customs House had to enter into a partnership with the Yuanhua Group, which had the connections to buy, move, and sell large amounts of goods.

The preceding also suggests that suborning is more likely to occur in coastal regions. First, China's coastal economies are more dynamic than inland ones, enabling private entrepreneurs to accumulate the larger economic and social capital necessary to reinvest in suborning. Second, coastal regions rely on foreign trade in which the aforementioned state-business partnerships for moving goods across borders are more likely. However, this does not mean that state agency takeovers are less likely in inland regions or in state agencies that directly control physical assets within their administrative and geographic jurisdictions. But in such regions and agencies, takeovers are more likely to come from the agencies' own leadership hierarchy. In such cases the head of an agency runs it as a fief for personal enrichment. Such takeovers, which can be termed "commandeering" to distinguish them from suborning, predate the market reform era. One has only to think of the takeover of the local transportation department in the 1970s as described by the journalist Liu Binyan (CITE). Clearly the market reforms since 1979 have also increased the scale at which this can occur as the more recent case of Daqiu Village attests to (CITE). But the process of suborning described in this paper is distinguished by the takeover a local state agency by a person who is not agency

staff or a Communist Party member. This is a significant evolution of state-business clientelism as well as a shift in state-society relations through marketization.

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