

The Duality of Crony Corruption in Economic Transition: Toward an Integrated Framework

Peter Ping Li

ABSTRACT. In order to shed light on the issue of crony corruption in the context of economic transition, I focus on the puzzle of China's unique experience of economic transition characterized by the duality forms and effects of crony corruption underlying local corporatism in a dual-track (i.e., market and political tracks) transition. I argue that the duality of local corporatism derives from the duality of crony corruption. First, the early form of local corporatism as state-business public alliance is embedded in informal crony corruption as positive for the purpose of wealth growth in the initial phase of economic transition with public and private interests aligned as compatible. Second, the later form of local corporatism as official-manager private collusion is embedded in quasi-formal crony corruption as negative for the purpose of wealth transfer in the later phase with public and private interests in conflict as incompatible. The duality of crony corruption in the two phases of economic transition is caused by the interplay between formal and informal factors and between economic and political factors. My contribution is twofold. First, I explain China's transition in terms of crony corruption underlying local corporatism. Second, I develop an integrated framework of crony corruption concerning its content, process, antecedent and consequence.

KEY WORDS: local corporatism, crony corruption, dual-track transition, formal-informal interplay, economic-political interplay, China

Corruption as an abuse of public power for private gain (Johnston, 1996; cf. Argandona, 2003) and *crony corruption* as a special form of corruption based on personalized favors (Khatri et al., 2006) have not been examined from a duality perspective; so there is a lack of holistic and dynamic understanding about the antecedents and consequences of corruption (see

Thomas and Meagher, 2004 for a review). For instance, even though some argue for the possible positive role of corruption (e.g., Leff, 1964), the prevailing view focuses on the negative role of corruption but without considering diverse historical contexts (e.g., Abed and Davoodi, 2000; Rose-Ackerman, 1999). Hence, few have simultaneously studied both positive and negative roles of corruption or the contingencies for the shift from positive roles to negative roles (see Li, 2005; Li and Chang, 2000 for exceptions). Further, there is a lack of an integrated framework for studying corruption, especially regarding the specific mechanisms by which diverse forms of corruption (e.g., public- or private-sector, systemic or ad hoc, grand or petty, and captured or administrative) can affect economic growth and transition (see Bardhan, 1997; Holmstrom and Smith, 2000; Jain, 2001; Johnston, 1997; Li, 2005 for reviews).

As a global phenomenon, corruption in various forms exists in all countries with different institutional contexts (Charap and Harm, 1999; Rose-Ackerman, 1999), but it is more acute in the developing and transition economies where formal institutions are ill-developed (Evans, 1998; Li, 2005). However, there is an ongoing debate over the potential links between the forms of crony corruption and roles of state bureaucracy as either developmental or predatory (cf. Evans, 1998; Kang, 2002). This issue is more acute in light of the late Asian financial crisis when the "Asian miracle" turned into the "Asian debacle" (Li and Chang, 2000). Also, there is an ongoing debate over the causes and effects of corruption in transition economies as positive or negative as well as political or economical (cf. Fan and Grossman, 2001; He, 1998; Li, 2005).

The purpose of this article is to shed light on the phenomenon of crony corruption in the context of economic transition. Based on the evidence about China's township-village enterprise (TVE), which is *a communal cooperative with ill-defined property rights*, this article addresses two questions via the duality lens: (1) what are the positive and negative effects or consequences of crony corruption across the distinctive phases of economic transition, and (2) what are the institutional contexts or antecedents of crony corruption across the phases. Consequently, my contribution is twofold. First, I provide an integrated explanation of China's transition in terms of crony corruption underlying local corporatism with two distinctive outcomes in two different phases. Second, I develop an integrated framework of crony corruption concerning its content, process, antecedent and consequence. The rest of the article is organized into three sections. First, I propose a duality lens for the interplay between formal and informal institutions, and apply it to the phenomenon of TVE in the context of economic transition. Second, I provide an integrated framework for studying the link between crony corruption and economic transition with formal-informal, economic-political, public-private, and positive-negative dualities. Finally, I conclude and discuss the implications of the framework for future research.

The formal-informal duality of crony corruption

The formal-informal duality

It is generally assumed that corruption in the developing countries is embedded in their institutional context where formal institutions are ill-developed but informal institutions are well-developed, but the link between corruption and institutions is never unequivocally established. For instance, we know little about how the interplay between formal and informal institutions affects the form and effect of corruption, primarily due to the paucity of research on the formal-informal interplay (Pejovich, 1997) despite its centrality to our understanding about institutional system in general (North, 1990) and corruption in particular (Thomas and Meagher, 2004). The mainstream research focuses narrowly on

formal institutions, so informal institutions have not been rigorously conceptualized or theorized, thus remaining marginal in the study on institutions (Helmke and Levitsky, 2003), especially in the research on corruption (Thomas and Meagher, 2004). Further, there is a bias against informal institutions in terms of emphasizing their negative role rather than a balance between negative and positive roles, especially in the developing and transition economies, where both well-developed informal institutions and ill-developed formal institutions co-exist (Helmke and Levitsky, 2003; Pejovich, 1997). Finally, there is little research on the critical dynamics of corruption, especially the changing roles of informal institutions in general and their interplay with formal ones in particular (Bardhan, 1997; Thomas and Meagher, 2004). Hence, we know little about the effect of informal institutions on both the processes of economic development and transition, especially the interplays between formal and informal institutions in the processes. I propose to study corruption in the context of formal and informal institutions in interplay as a duality. I refer *duality* as the holistic, dynamic, and dialectic balance between two elements that are contrary (relatively contradictory) yet complementary (relatively compatible) as the opposites-in-unity (Li, 1998, 2008).

In order to explicitly specify formality and informality, I adopt Li's (2008) *five dimensions of formality-informality*: codification, formation, enforcement, power, and approach. Accordingly, *informality* refers to the nature of social events as implicitly assumed, endogenously embraced, and flexibly enforced by horizontal peer pressures via a subjective approach (e.g., sentimental and particularistic), while *formality* is explicitly prescribed, exogenously imposed, and rigidly enforced by hierarchical authority powers via an objective approach (e.g., instrumental and universalistic). Accordingly, personalized trust and affective commitment are *strong-informal*; cultural norm and ethical value are *weak-informal*; legal rule and bureaucratic control are *strong-formal*; price control and market competition are *weak-formal*. Hence, I propose a *typology of institutional forms*: (1) authority-based hierarchical rule as strong-formal institution; (2) price-based market rule as weak-formal institution; (3) ethics-based moral norm as weak-informal institution, and (4) trust-based relational norm as strong-informal institution (cf. Biggart and Delbridge, 2004).

I frame *guanxi*—the Chinese term for particularistic ties based on the strong-informal relational norm of *guanxi* practice—as *strong ties*. Further, I frame the universalistic ties based on formal rule and weak-informal norm as *weak ties*. I posit that the unique role of *guanxi* as strong ties is to “bend” weak ties in various patterns with positive or negative outcomes.

Even though I agree that *guanxi* can result in crony corruption, I take issue with the view that equates *guanxi* practice with crony corruption (e.g., Khatri et al., 2006). Referring to crony corruption as an abuse of public power for private favor, I argue that not all *guanxi* are corrupt, and not all corrupt ties are negative. With “public” being broadly defined as collective in nature at either governmental or organizational level, I propose two litmus tests to judge corruption (cf. Dunfee and Warren, 2001; Su and Littlefield, 2001). The first litmus test is whether public power (i.e., the duty for public interest) is at stake to judge if corruption occurs. I differentiate public favoritism from private one. While the former is crony corruption, the latter is not related to crony corruption because it is an exchange of private favors in a purely private domain without public power involved. Without this distinction, favoritism involving third-parties in competition (e.g., a choice of spouse at the cost of other suitors) will have to be crony corruption (Khatri et al., 2006, p. 62). With this distinction, buyer-supplier alliances (Dyer and Hatch, 2006); relationship marketing (Morgan and Hunt, 1994); friendship networks for sharing private knowledge (Gibbons, 2004), and social embeddedness (Granovetter, 1985) are all the cases of private favoritism, rather than those of crony corruption. According to the first litmus test, it is a mistake to equate private favoritism based on particularistic ethics with corrupt cronyism, or equate the emerging *network capitalism* with the obsolete crony capitalism (Biggart and Delbridge, 2004; Boisot and Child, 1996; Li, 1998, 2008; Lovett et al., 1999).

The second litmus test is whether public power is abused for private favor at the expense of public interest to judge if corruption is negative, rather than a “bending” of public power even when public interest can be better served by this “bending.” Even though I recognize that formal rules and informal norms may be designed to be just and fair, I take issue with the assumption that such rules or norms

are perfect and sufficient to govern any exchange as just and fair under high uncertainty in the pre- and post-modern contexts (Li, 1998, 2005, 2008; Kang, 2002; Yang, 1994). My central tenet concerning the “bending” function of *guanxi* is that *guanxi* can function positively (efficient and fair) when they supplement insufficient weak ties in the post-modern context) or substitute ill-developed weak ties in the pre-modern context, thus in line with the “spirit” (even if in conflict with the “letter”) of legal justice and moral fairness; *guanxi* could be negative whenever they suppress the healthy development of weak ties or sabotage the sufficient function of weak ties, thus in conflict with the “spirit” (even if in line with the “letter”). This key issue is directly related to the debate over whether China’s corruption is *informal* or *quasi-formal*. The former refers to a form of crony corruption that is endogenously initiated by local officials and TVE managers (tolerated by the state), while the later refers to a form of crony corruption that is not only endogenously initiated but also exogenously solicited by the state (cf. Basu and Li, 2000; Fan and Grossman, 2001; He, 1998; Li, 2005; Lu, 2000; Sun, 2004).

Nevertheless, a consensus is emerging that the corruption in China is *institutionalized* as the de facto rule rather than the ad hoc exceptions (Fan and Grossman, 2001; He, 1998; Li, 2005; Lu, 2000; Sun, 2004). Corruption is institutionalized when it is systemic at two *loci* (Helmke and Levitsky, 2003): (1) corruption is committed by organized collective (Gong, 2002; Shieh, 2005), and (2) corruption is committed by a large number of individuals as the de facto rule (Cai, 2003; Ding, 2000). Another consensus is that the corruption in China is largely crony among the elites (Li, 2005). I compare different forms of crony corruption in terms of their key consequences and antecedents with the evidence about the Chinese TVE in two phases of economic transition.

The initial phase of China’s economic transition

The most puzzling aspect of China’s economic transition is the phenomenon of TVE in rural China. TVE is a collective-owned firm controlled by the local government in China’s rural areas. Anomalous from the perspective of various Western theories,

the issue of TVE has often been cited in the debate over the need for privatization or democratization in economic transition (e.g., Oi, 1999; Putterman, 1995; Rawski, 1995; Woo, 1999). According to the Western theories of property rights (Alchian and Demsetz, 1972) and agency (Jensen, 2000), we will find striking differences in efficiency among the firms across these ownership categories, with the lowest in the state sector, the highest in the private sector, and the mid-level in the collective sector. The significance of TVE lies in the puzzle of their efficiency as high as private firms at least until recently (Jefferson et al., 2000; Zhang et al., 2001), even though TVE is a communal cooperative with ill-defined property rights (Chen, 2000; Oi, 1999).

The puzzle of TVE efficiency, however, did not exist in the pre-transition phase in China (Nee, 1992; Oi, 1999), so the puzzle must lie in the change of institutional context in the phase of economic transition. Scholars have attempted to solve the puzzle from four perspectives. First, some explain TVE as the second-best political solution (Chang and Wang, 1994). They argue that the Chinese state supports TVE as the best way to grow the economy without jeopardizing public ownership and state control, which are the twin pillars for the rule of China's Communist Party. The efficiency of TVE may derive from the state policies of political decentralization and economic deregulation. The two policies have opened the door for the growth of TVE resulted from the direct support from newly empowered local officials. Second, others explain TVE as the best cultural solution (Weitzman and Xu, 1994). They argue that China's culture is defined by the values of collectivism and family. The value of family is reflected in the spirit of family-based entrepreneurship and the prevalence of guanxi practice as behavioral norm (i.e., a private network of family, kinship and non-kinship ties for an exchange of particularistic favors, Wank, 1999). Third, still others explain TVE as the second-best ownership solution (IFC, 2000). They argue that collective ownership is preferred not only because private entrepreneurs must disguise under the "red hat" of TVE by registering their private firms as fake collective firms to avoid the political discrimination against private firms (IFC, 2000), but also because the officials need the cover to abuse public assets for

private gains by controlling TVE as de facto private firms (Chen, 2004; Putterman, 1995). The "red hat" is needed for political protection and resource access, while de facto private property rights are convenient for corrupt officials to abuse public assets for private gains. Finally, most explain TVE as the second-best transaction solution (Chen, 2000; Nee, 1992; Oi, 1999). They maintain that China's institutional context is characterized by the ill-developed formal institutions of law and market as well as the deeply rooted informal institution of guanxi. As a quasi-private hybrid form in the context of state and market failures, TVE would have a lower total cost than state firms because of the lower agency cost and than private firms because of the lower transaction cost, as a result of the close involvement of local government in TVE operations. Local government seems more effective in developing local economies than the central state with the better alignment of public and private interests at the local level (thus lower agency costs) and the stronger effect of market making and market intervention at the local level (thus lower transaction costs) (Oi, 1999).

Diverse as they seem, I can identify two key *shared themes* among the four explanations. First, they are deeply rooted in the framework of institutional theories. The first two views can be viewed as primarily macro-institutional perspectives (i.e., the former emphasizing the formal institution of state, and the latter emphasizing the informal institution of culture), while the last two views can be viewed as primarily micro-institutional in nature (i.e., both emphasizing the interplay between formal and informal ones). Second, they share the theme of direct involvement of local officials in the business activities of TVE, in both the formal form of public policies and the informal form of private guanxi. The two themes can be best captured by the notion of local corporatism as local public-private partnership in both political-economic (i.e., the interplay of state and market) and social-cultural terms (i.e., the interplay of formal rule and informal norm) (Chen, 2000; Nee, 1992; Oi, 1999). According to my second litmus test, the views differ in the judgment of local corporatism as primarily positive (if it serves public interest) or negative (if it solely serves private interest at the expense of public interest). In this sense, local corporatism is the local version of

state-corporatism, commonly regarded as one of the key success factors for the “East Asian miracle” (Evans, 1998; Kang, 2002; Li and Chang, 2000; Oi, 1999).

From the lens of formal–informal duality, I define *local corporatism* as a *quasi-formal* (a duality of formal format and informal substance as crony) public–private partnership at the local level in a special context of ill-developed formal rules (e.g., the virtually non-existent market and law as well as seriously weakened central state) and well-developed strong–informal norm (e.g., the prevailing *guanxi* norm and family values) in China. In this sense, local corporatism is a unique institutional solution to the interplay between formal and informal ties between local officials and TVE managers. Accordingly, I regard TVE as a quasi-formal governance form as an application of local corporatism (see Li, 2005 for a review). In this sense, I argue that the root of TVE efficiency and success lies in the four special functions of local corporatism as a *quasi-formal public alliance* between local officials and TVE managers to align formal policies with informal practices. The first two special functions derive from the role of local government as a *quasi-formal parent company* by treating TVE as its own subsidiaries. Local government can serve as a quasi-formal corporate board (e.g., to plan strategy, select manager, design incentive plan, and evaluate performance) and the function of quasi-formal market maker (e.g., to develop the local public utilities, and facilitate resource access). The other two functions derive from the role of local government as a *quasi-formal business guardian* by treating TVE managers as its protégés. Local government can serve as a quasi-formal political shield against the predatory central state (e.g., to favorably interpret the state policies and regulations, and to implement them selectively at the local level, including tax collection) as well as a quasi-formal business leader (e.g., to act as a referee, mediator, guarantor and broker for the local business community). It seems that the four functions are more effective at the local level rather than at the national level (Dougherty and McGuckin, 2002). It is worth noting that local corporatism did not occur in the pre-transition phase (Oi, 1999), so it resulted from the changing institutional context initiated by China’s economic transition with the required incentives for local public–private partnership.

The positive effect of crony corruption in the initial phase

Despite a general acceptance of local corporatism as the source of TVE efficiency, there is an ongoing debate over the institutional roots of local corporatism. Most scholars evoke the concept of path-dependent change of traditional institutions as the context of local corporatism, but they differ in the selection of institutions to emphasize. Many focus on the top-down macro-level *formal state policies* as the basic institutional root of local corporatism (Jin et al., 1999; Oi, 1999). Some focus on the bottom-up micro-level *informal social custom* as the basic institutional root of local corporatism (Jiang and Hall, 1996; Nee, 1992; also see Wank, 1999 for the urban region). Others emphasize the mid-level *quasi-formal local collective ownership* as the basic institutional root of local corporatism (Che, 2002; Pei, 1998). Valid as they appear, the above three explanations can shed light on the exogenous and extrinsic incentives for local corporatism. I concur with those who emphasize the multi-level *informal corruption*, referring to an informal “bending” of public power for personal favors ranging from petty perks to de facto privatization, as one of key institutional roots of local corporatism because the latter is intertwined with the former as the endogenous and intrinsic incentive to motivate state officials to ally with business managers (Basu and Li, 2000; Fan and Grossman, 2001; Li, 2005; Putterman, 1995).

These scholars argue that the ultimate driver for local officials to favor local economic development lies in the opportunity to gain politically (i.e., to advance political career, which becomes less attractive over time) and economically (i.e., to benefit financially from business involvement, which becomes more attractive over time), both of which involve corruption (Basu and Li, 2000; Fan and Grossman, 2001), thus both political rank-seeking and economic rent-seeking (Lu, 2000; cf. Che, 2002). The rent-seeking corruption via local corporatism is unique in three aspects. First, it can be positive in terms of *wealth growth* rather than negative in terms of *wealth transfer* from public to private. The “helping hand” of local corporatism can prevent the rent-seeking from the higher-level state agencies as well as the excessive rent-seeking from local officials (Che, 2002). Second, the incentive and motive for

the “helping hand” derives from the form of long-term rent-seeking with local officials as the de facto co-owners and co-managers of TVE (even in the case of “red-hat” TVE), thus *de facto privatization* (Putterman, 1995; cf. Che, 2002). This is the ultimate reason for local corporatism to constrain the rent-seeking from all officials at all levels, especially when the pie of wealth is too small to extract rent. Third, the rent-seeking corruption aligns public interest with private interest for it is related to the reform policies of state federalism (i.e., political decentralization) and market liberalization (i.e., market deregulation) rather than control and regulation (Jin et al., 1999). The local officials are more effective than the higher-level officials in public-private partnership because the former are more directly involved in the control of TVE as the de facto co-managers. Further, corruption may be linked to the weakened formal institution of state (e.g., the seriously weakened control by the state over the local agents, Oi, 1999) and the underdeveloped formal rules of law (Cao, 2000) and market (Nee, 1992). This is further compounded by the erosion of the informal institution of ethics (Ding, 2000; Hao and Johnston, 1995). Though it is insufficient alone to account for local corporatism (Oi, 1999), informal corruption is deeply intertwined with other institutional forces across all levels (Basu and Li, 2000; Fan and Grossman, 2001; Hao and Johnston, 1995), so it serves as the catalyst for all other institutional forces to delineate the institutional context for the positive “helping-hand” role of local corporatism when private and public interests are aligned. This extends the view of developmental state by differentiating the *capability* of state officials from their *motive* to ally with business managers (cf. Evans, 1998; Kang, 2002). Only when both public and private interests are aligned as compatible can local corporatism be successful. In sum, informal corruption that underlies the early form of local corporatism is primarily positive due to the compatible alignment of public and private interests as well as the combination of capability and motive required for corporatism as public-private partnership to occur.

The later phase of China’s economic transition

Despite its success in the initial phase of China’s economic reforms, local corporatism seems to be

losing its magic power, as indicated by the deteriorating performance of TVE and the subsequent trend of massive privatization of TVE in the mid-1990s (Brandt et al., 2001; Dong et al., 2002; Li and Rozelle, 2003; Shi et al., 2001). There are two competing explanations regarding the trend of TVE privatization. First, most evoke the economic rationale of exogenous market competition and endogenous private ownership as the basic drivers of TVE privatization, but some focus primarily on the endogenous factors of inherent inefficiency of public ownership in contrast to the efficiency of private ownership (e.g., Bai et al., 2001; Perotti et al., 1999). They argue that the exogenous factors are only external catalysts, so the endogenous factors will have to break through the suppression of exogenous factors for the internal advantages of private firms and free market to prevail. Second, some also evoke the political rationale of elite corruption as the ultimate endogenous motive behind the trend of TVE privatization as the inevitable result of China’s dual-track paradigm-economic reform (e.g., marketization and privatization) without political reform (e.g., the rule of law and democracy) (e.g., Cai, 2003; Chen, 2004). They argue that economic reforms can never be truly achieved without political reforms (He, 1998; cf. Oi, 1999). The economic argument tends to regard the trend of privatization as fair, legitimate, and transparent for public interest, while the political argument tends to regard the trend as unfair, illegitimate, and opaque only for private interest.

Despite their apparent distinction (Woo, 1999), the above views share a common theme, i.e., TVE as an organizational form in the context of local corporatism as an institutional system being *transitional*, so one should differentiate the initial phase of China’s economic transition from its later phase. Built on this common theme, I argue that economic, political, formal, and informal forces are all necessary in the process of economic transition, so an integration of all four forces will account for TVE privatization (cf. Rawski, 1995; Woo, 1999). First, the role of local corporatism has shifted from positive to negative together with the changing institutional context of increasing marketization, including the higher mobility of capital and residents across regions that has eroded one of the foundations of local corporatism, i.e., the dependence of local residents on local collective ownership for incomes and jobs

(Bai et al., 2001; Rozelle et al., 1999). Second, a less hostile political climate with much more favorable policies for private firms has greatly reduced the need for political shelter from local officials, as in the case of “red-hat” TVE (IFC, 2000). Third, a growing conflict of interest between local officials and TVE managers has been exacerbated by the excessive intrusion by local officials into the affairs of TVE (Perotti et al., 1999; Shi et al., 2001), especially the hiring and firing of managers and the forced investment in the political pet projects (Chen, 2004). Hence, in the later phase of China’s economic transition, the balance of power has shifted from local officials to TVE managers or private entrepreneurs. It is worth noting that such shifting balance of power in China resembles the trajectory of power shift from government to business that turned the “Asian miracle” into the “Asian debacle” (Evans, 1998; Kang, 2002; Li and Chang, 2000). It is the institutional factor of marketization that has shifted the role of local corporatism from being a “helping hand” into a “grabbing hand” (Che, 2002). Such a shift has triggered TVE managers to actively seek formal property rights via privatization (Perotti et al., 1999; Shi et al., 2001). Further, the problems of TVE debt burden and “TVE-becoming-SOE disease” have forced local governments to privatize TVE (Li and Rozelle, 2003; Shi et al., 2001). The interplay between the exogenous marketization and the endogenous ownership has driven privatization, but I argue that this economic driver is necessary but insufficient for the trend of TVE privatization to occur.

The negative effect of crony corruption in the later phase

I maintain that the shifting role of local corporatism in economic terms from a “helping hand” to a “grabbing hand” is directly related to its shifting role in political terms from state-business public alliance to official-manager private collusion. Contrary to the fair, legitimate, and transparent features of public alliance for wealth growth (thus responsible for the initial success of TVE and local corporatism), the unfair, illegitimate, and opaque features of private collusion for wealth transfer are responsible for the later failure of TVE and local corporatism. In order to further differentiate between informal and

quasi-formal corruption, I link informal corruption to *de facto* privatization on a petty scale (Basu and Li, 2000; Putterman, 1995), while associating quasi-formal corruption with formal privatization via informal means under the cover of formal policy on a grand scale (Chen, 2004; Pei, 2006). In the case of *de facto* privatization, informal corruption serves as the intrinsic incentive to motivate local officials to ally with TVE managers, and this alliance serves the public interest of wealth growth. In the case of formal privatization, quasi-formal corruption serves as the informal means to privatize public wealth under the cover of formal policy. For instance, informal form can be divided into three *categories* (Gong, 1997; Lu, 2000): (1) private consumption of public properties (e.g., free private use of public facilities or funds); (2) private compensation for public services (e.g., taking bribes or bribing the higher-level officials with public funds); (3) private conversion of public assets (e.g., embezzlement; self-bribery as dual-career bureaucrat-managers; informally stripping public asset via fraudulent business deals as dual-career bureaucrat-managers or hidden partners of private firms). Despite the systemic nature of informal corruption in the initial phase of China’s economic transition, the goal to grow wealth is shared by officials and managers. With the shared goal, public and private interests are aligned as compatible.

In contrast, quasi-formal corruption occurs as private collusion in the process of formal privatization in the later phase of China’s economic transition when public interest is abused for private interest (Chen, 2004; Pei, 2006; Yao, 2002). Hence, in contrast to the primarily positive effect of informal corruption, the effect of quasi-formal corruption is absolutely negative. The best illustration of such private collusion lies in the exclusive management buyout of TVE assets at heavily discounted prices relative to the book values (Li and Rozelle, 2003) or heavily under-valued book values (Chen, 2004). The negative effect of quasi-formal corruption can be further reflected by its impact on firms’ post-privatization performance. The evidence shows a strong negative relationship between the post-privatization performance and the level of discount in the selling prices of TVE assets for TVE insiders (Li and Rozelle, 2003): the higher the discount, the worse the post-TVE performance. This argument

extends the extant view on predatory state by emphasizing both the capability and motive of quasi-formal corruption (cf. Shleifer and Vishny, 1999). Since the negative role of corruption is widely accepted as the prevailing conviction, I do not need to elaborate further on the negative effect of quasi-formal corruption. However, one big question remains: where do informal and quasi-formal corruptions derive from. In other words, we still know little about the institutional contexts of various forms of corruption. It is imperative to develop a holistic and dynamic framework to explain corruption beyond the case of China.

Toward a duality framework of crony corruption

In order to integrate the distinct contents, processes, antecedents, and consequences of corruption in economic transition into a holistic and dynamic framework, I apply the notions of duality lens and local corporatism to the issue of crony corruption. First, the duality of informal and quasi-formal forms of corruption can delineate the content of corruption. Second, the duality of initial and later phases of economic transition can delineate the process of corruption. Third, the duality of economic and political institutions with two contrasting tracks of transition can delineate the antecedents of corruption. Fourth, the duality of wealth growth and wealth transfer with public and private interests in alignment or conflict can delineate the consequences of corruption. With the integrated framework (see Figure 1), I highlight the interplay between formal and informal as well as economic and political factors by treating them as equally critical (thus dualities) without assuming one as absolutely superior to the other under all circumstances.

The content of crony corruption

I propose that the distinctive forms of informal and quasi-formal crony corruptions with two contrasting sets of political and economic motives can integrate the extant typologies into a content typology. I frame informal corruption as primarily petty and administrative, while quasi-formal corruption as primarily

grand and captured (cf. Jain, 2001; Johnston, 1997). Being petty and administrative in nature, informal corruption is an informal “bending” of public power by the lower-level officials in the process of implementing state policies; in contrast, being grand and captured in nature, quasi-formal corruption is a quasi-formal “bending” of public power by the higher-level officials in the process of formulating state policies (cf. Thomas and Meagher, 2004). Accordingly, informal corruption is directly related to de facto privatization as a special form of corporatism when public and private interests are aligned with the shared goal of wealth growth; in contrast, quasi-formal crony corruption is directly related to formal privatization as the other form of corporatism when private and public interests are in conflict due to the transfer of public wealth to private hands via actual informal means under the cover of formal means, thus legal in “letter” but immoral in “spirit.” This proves that not all formal rules are moral.

I take issue with the prevailing assumption that well-developed formal rule is moral and sufficient so that there is no need for informal norm, especially strong-informal relational norm, in the modern societies (cf. North, 1990; Williamson, 1993). I argue that not all formal rules are moral or perfect. For instance, in the history of China, the abusive state policies controlled by the elite have been circumvented and subverted by the Chinese mass via crony corruption (Yang, 1994). Further, I take issue with the implicit assumption that formal rule is superior to informal norm. I argue that not all formal rules are superior to informal norms. For instance, in the context of knowledge-intensive competition, the strong-informal norm of personalized trust is superior to formal rule and weak-informal norm (Li, 1998, 2008). Applying the duality lens, I propose that it is better to balance formal rule with informal norm. There are tests for this issue. The first test is whether public interest can be better served by formal rule, informal norm or their balance, and the second test is whether the alignment of public and private interests can be better served by formal rule, informal norm, or their balance.

Proposition 1: While informal corruption is related to de facto privatization as a form of corporatism, quasi-formal corruption is related to formal privatization as the other form.

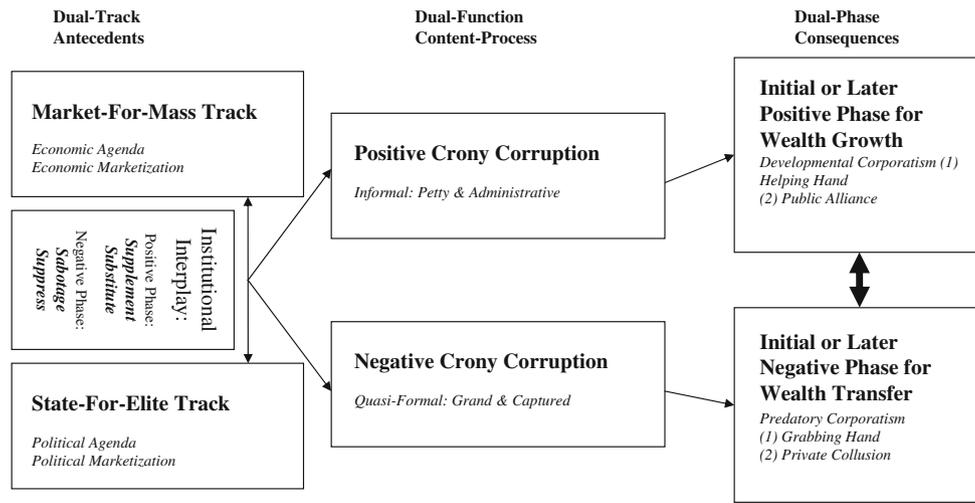


Figure 1. A duality framework of crony corruption in economic transition.

The process and consequence of crony corruption

In addition to the content, the process and consequence of corruption are other building blocs for the integrated framework of corruption. Based on the evidence about TVE, I argue for a curvilinear link between the level of crony corruption and the effect of local corporatism. When crony corruption is ad hoc at a low level, local corporatism is unlikely to occur due to the lack of incentives for public–private partnership, thus little positive effect of local corporatism. When corruption is systemic at a moderate level as informal corruption, the effect of local corporatism is likely to be positive as state–business public alliance, where the public interest of community is aligned with the private interest of officials and managers for the growth of local wealth. When corruption is systemic at a high level as quasi–formal corruption, the effect of local corporatism is likely to be negative as official–manager private collusion, where the private interest of local officials and managers is served at the expense of the public interest of community for the unfair transfer of public wealth to private wealth, thus impeding the future wealth growth. Though the private collusion in local corporatism has been in existence since the start of China’s economic transition, it has become the predominant form of local corporatism in the later phase (Cai, 2003; Chen, 2004; Yao, 2002). While de facto privatization via informal corruption

is sufficient for the elite in the initial phase, it becomes insufficient in the later phase. The central trigger to the shift from wealth growth to wealth transfer lies in wealth accumulation (Li, 2005). If public wealth is small and dispersed, the elite will find wealth transfer unattractive; if public wealth is large and concentrated, the elite will find wealth transfer attractive (cf. Pei, 2006; Walder, 2003).

This is consistent with the emerging view that the former communist elite will be the first to be the new capitalist elite via corruption in the process of economic transition (Holmstrom and Smith, 2000; Pei, 2006; Walder, 2003; Yao, 2002). Hence, economic transition follows a general process of transforming the pre-transition political elite into the post-transition economic elite. In this sense, wealth transfer may not follow the fixed sequence of being after wealth growth in the later phase of economic transition; wealth transfer could also occur ahead of wealth growth in the initial phase, such as the case of Russia (Holstrom and Smith, 2000; Walder, 2003). In sum, the elite’s priority for wealth growth or wealth transfer is the ultimate driver behind the shifting roles of corruption and the consequent shifting roles of local corporatism. Hence, the two phases of wealth growth and wealth transfer delineate the processes and consequences of corruption in economic transition with the shift in the roles of state corporatism from public alliance to private collusion, thus from “helping hand” for wealth growth to “grabbing hand” for wealth transfer.

Proposition 2: There is an inverted U-shaped link between the level of crony corruption and the effect of local corporatism (little, positive, and negative effects).

Proposition 3: The two forms of corruption have two distinct outcomes in two distinct phases in economic transition: (1) a positive effect of informal corruption in a phase for wealth growth (either early or later), and (2) a negative effect of quasi-formal corruption in the other phase (either early or later) for wealth transfer.

The antecedents of crony corruption

I argue that the content, process and consequence of corruption are all embedded in the patterns of the interplay between formal rules and informal norms. For instance, China's crony corruption has been not only tolerated but also solicited by the state as central to the ultimate agenda of the elite: (1) to tolerate informal corruption so as to exchange for political loyalty from officials via economic incentives (e.g., the de facto privatization, Putterman, 1995) and political disincentives (e.g., the threat of selective punishment for corruption, Fan and Grossman, 2001), and (2) to solicit quasi-formal corruption for the extension of elite privilege from political arena to economic arena (Chen, 2004; Pei, 2006; Yao, 2002), thus transferring the old communists into new capitalists (Holmstrom and Smith, 2000; cf. Walder, 2003). Hence, the ruling elite in China employ both informal and quasi-formal corruptions at both local and central levels to achieve the ultimate agenda of not only preserving their political privilege but also extending their privilege into economic arena (Holmstrom and Smith, 2000; Li, 2005; cf. Charap and Harm, 1999).

In order to achieve the ultimate agenda, the elite have adopted two sequential goals for China's economic transition. The first is wealth growth in the initial phase of economic transition, and the second is wealth transfer in the later phase. In this sense, the two-phase process is by design rather than by accident. The ultimate agenda can be accomplished by four approaches in terms of four patterns of interplay between formal and informal institutions as well as between political and economic institutions. Such patterns of institutional interplay are based on two

TABLE I
A typology of formal-informal interplay

Dimensions	Balance of power	
	Equal power	Unequal power
Balance of interest		
Compatible interests	Supplementary	Substitutive
Incompatible interests	Sabotaging	Suppressive

dimensions: (1) the nature of balance of power as equal or unequal, and (2) the nature of balance of interest as compatible or incompatible (see Table I; cf. Helmke and Levitsky, 2003; Johnston, 1997). Both supplementary and sabotaging patterns are between formal and informal institutions with equal powers; both substitutive and suppressive patterns are between formal and informal institutions with unequal powers; both supplementary and substitutive patterns tend to be compatible; both suppressing and sabotaging patterns tend to be incompatible.

Proposition 4: The strong-informal norm of guanxi practice in the form of informal corruption *supplements* the strong (for political control) yet ineffective (for economic growth) formal rule of state for the initiation of quasi-formal marketization; the *first pattern* of interplay (in the public-alliance form of local corporatism in the phase for wealth growth) benefits both the elite and the mass, thus positive in terms of aligning private interest with public interest, even though more for the elite than for the mass.

Proposition 5: The strong-informal norm of guanxi practice in the form of quasi-informal corruption *substitutes* the ill-developed formal rules of law and market, in addition to the weakened weak-informal norm of ethics (the moral vacuum is primarily due to the drastic collapse of the communist ideology and the gradual erosion of the Confucian values), for the further growth of marketization; the *second pattern* of interplay (in the public-alliance form of local corporatism in the phase for wealth growth) benefits both the elite and the mass, thus positive in terms of aligning private interest with public interest, even though more for the elite than for the mass.

Proposition 6: The strong-informal norm of guanxi practice and the strong-formal rule of state (in the

form of quasi-formal corruption) *sabotage* the emerging formal rules of law and market so as to legitimize the corrupt transfer of public wealth into private hands; the *third pattern* of interplay (in the private-collusion form of local corporatism in the phase for wealth transfer) benefits only the elite but not the mass, thus negative in terms serving private interest at the expense of public interest.

Proposition 7: The strong-informal norm of guanxi practice and the strong-formal rule of state (in the form of quasi-formal corruption) *suppress* the further development of the emerging formal rules of law and market so as to preserve the long-term elite privilege in both political and economic arenas; the *fourth pattern* of interplay (in the private-collusion form of local corporatism in the phase for wealth transfer) benefits only the elite but not the mass, thus negative in terms of serving private interest at the expense of public interest.

The overall trajectory of a dual-track transition paradigm

I argue that the systemic corruption, local corporatism, and conflicting imbalances are all directly caused by the dual-track transition paradigm adopted by the elite to assure their ultimate agenda (cf. Jin and Haynes, 1997). As the core of China's economic transition, the dual-track transition paradigm is the overall strategy adopted by the ruling elite for economic marketization via competition and political marketization via corruption (Chen, 2004; Holmstrom and Smith, 2000; Pei, 2006; Yao, 2002). This paradigm consists of two tracks: (1) a fast-moving "market-for-mass" track of quasi-formal economic marketization via competition for economic growth, especially effective in the phase for wealth growth, and (2) a slow-moving "state-for-elite" track of quasi-formal political marketization via corruption for privilege preservation, especially acute in the phase for wealth transfer. The ultimate agenda of this dual-track paradigm is to transform the communist elite into the capitalist elite (Holmstrom and Smith, 2000; Pei, 2006; cf. Walder, 2003). The most salient long-term consequence of the dual-track paradigm is the marketization of political power, where public power is widely traded for private gain (Chen, 2004; Pei, 2006; Yao, 2002), thus creating the first-generation

capitalist elite (Holmstrom and Smith, 2000). The interplay of the two tracks has created both the necessity and feasibility of the political power market (hereafter referred to as *power market*). The surging corruption and the resulted role shift of local corporatism derive directly from this power market.

In particular, the institutional context for power market can be analyzed at three levels. At the first level is the *institutional predisposition to corruption* as the immediate trigger to the start of power market. For instance, the institutional predisposition is created by China's *dual-track structural imbalances* that are inherited from the pre-transition legacy in favor of the elite. In this sense, informal corruption reacts to the structural imbalances as a pull toward power market (cf. Oi, 1999). At the mid-level is the *institutional inducement for corruption* as the intermediate trigger to the growth of power market. For instance, the institutional inducement is created by China's *dual-track partial reforms* (i.e., only economic reforms without political reforms) that are adopted to preserve the elite privileges. In this sense, informal corruption is induced as the "wealth-chasing-power" approach to the partial reforms as a push toward power market (Sun, 2004). At the third level is the *institutional sponsorship of corruption* as the ultimate trigger to the institutionalization of power market. For instance, the institutional sponsorship is created by China's *dual-track ultimate agenda* to ensure the extension of the power base of the elite from political arena to economic arena. In this sense, quasi-formal corruption is sponsored by the state as the "power-chasing-wealth" approach to the ultimate agenda (Pei, 2006). Hence, corruption is inevitable whenever the dual-track paradigm is adopted because it results in both economic and political marketization. Political marketization is inevitable if economic marketization occurs without thorough political reforms. Only thorough political reforms can curtail corruption. In sum, corruption is rooted in power marketization, which is rooted in the dual-track paradigm;

Proposition 8: Power market evolves with a dual-track paradigm: (1) informal power marketization in terms of "wealth-chasing-power" with an economic agenda for wealth growth; (2) quasi-formal power marketization in terms of "power-chasing-wealth" with a political agenda for wealth transfer.

Proposition 9: The positive relationship between corruption and economic marketization is negatively moderated by political reforms.

Conclusion

The purpose of this article is to shed light on the phenomenon of crony corruption in the context of economic transition based on the evidence about China's experience. I have addressed two questions: (1) what are the positive and negative effects or consequences of crony corruption across the distinctive phases of economic transition, and (2) what are the institutional contexts or antecedents of crony corruption across the phases. My contribution is twofold. First, I provide an integrated explanation of China's experience in terms of crony corruption underlying its unique local corporatism with two distinctive outcomes in two different phases as dualities. Second, I develop an integrated framework of crony corruption in terms of holistic and dynamic interplay between formal rules and informal norms as well as between economic and political factors as central dualities. I also extend the research on the role of state as developmental or predatory.

The key implications of this study are the reevaluation of the duality roles of corruption in economic transition as well as the reevaluation of the duality effect of dual-track paradigm. First, we can reconceptualize corruption as both inevitable (even positive under some conditions) and disruptive rather than purely negative. Informal corruption can break the rigid barriers of old formal rules to help initiate a necessary economic transition against the entrenched strong inertia. Second, even though corruption may enjoy short-term benefits in the phase for wealth growth, it will suffer from long-term problems in the phase of wealth transfer. This perspective sheds light on the ongoing debate over the superiority of China's approach as the so-called "gradualist" one in contrast to the so-called "big-bang" approach in Russia (see Spicer et al., 2000 for a review). I suggest a third view that integrates both approaches as equally valid for two distinctive phases of economic transition: the gradualist path is appropriate for wealth growth, while the big-bang path is imperative for wealth transfer. The third view

also sheds light on the ongoing debate over the imperative of privatization and democracy for economic transition (cf. Oi, 1999). Both reforms are imperative for the long-term success of economic transition, if not in the initial phase, at least in the later phase. One must recognize the inherent limitations of dual-track paradigm in terms of the inevitable conflicts between the two tracks, especially in the later phase. Another paradigm (e.g., the case of Russia) that combines both economic and political tracks at the same time in the initial phase could be more effective in the long term (cf. Li, 2005; Spicer et al., 2000; Walder, 2003). Further, this new paradigm can have a distinctive sequential process (e.g., wealth transfer in the initial phase, and wealth growth in the later phase).

My duality perspective is also applicable to the developing economies because they face many of the similar institutional weaknesses as transition economies, especially the duality roles of the state as more developmental in the phase for wealth growth while more predatory in the phase for wealth transfer. In this sense, the most central challenge shared by both the developing and transition economies lies in the approach to transforming the elite's privilege without hurting the public interest of the mass to an unbearable extent (cf. Walder, 2003). The ultimate key to the long-term success of economic transition lies in thorough political reforms. For future research, I call for more effort to study the duality nature of strong-informal norms (e.g., personalized trust and strong ties). Further, more research should be conducted to explore the holistic and dynamic interplay between formal rules and informal norms as well as between economic marketization and political reform as the central dualities for economic transition and development.

References

- Abed, G. T. and H. R. Davoodi: 2000, 'Corruption, Structural Reforms, and Economic Performance in the Transition Economies', Working Paper WP/00/132, International Monetary Fund, Washington, DC.
- Alchian, A. A. and H. Demsetz: 1972, 'Production, Information Costs, and Economic Organization', *American Economic Review* **62**(5), 777–795.
- Argandona, A.: 2003, 'Private-to-Private Corruption', *Journal of Business Ethics* **47**, 253–267. doi:[10.1023/A:1026266219609](https://doi.org/10.1023/A:1026266219609).

- Bai, C., D. D. Li and Y. Wang: 2001, 'Thriving on a Tilted Playing Field: China's Non-State Enterprises in the Reform Era', Working Paper No. 95, Stanford Center for International Development, Stanford, CA.
- Bardhan, P.: 1997, 'Corruption and Development: A Review of the Issues', *Journal of Economic Literature* **35**, 1320–1346.
- Basu, S. and D. Li: 2000, 'A Theory of the Reform of Bureaucratic Institutions', Working Paper No. 161, William Davidson Institute, the University of Michigan, Ann Arbor, MI.
- Biggart, N. W. and R. Delbridge: 2004, 'Systems of Exchange', *Academy of Management Review* **29**, 28–49.
- Boisot, M. and J. Child: 1996, 'From Fiefs to Clans and Network Capitalism: Explaining China's Emerging Economic Order', *Administrative Science Quarterly* **41**, 600–628. doi:10.2307/2393869.
- Brandt, L., H. Li and J. Roberts: 2001, 'Why do Governments Privatize?', Working Paper No. 429, William Davidson Institute, the University of Michigan, Ann Arbor, MI.
- Cai, Y.: 2003, 'Collective Ownership or Cadres' Ownership? The Non-Agricultural Use of Farm and in China', *China Quarterly* **175**, 662–680. doi:10.1017/S0305741003000890.
- Cao, L.: 2000, 'Chinese Privatization: Between Plan and Market', *Law and Contemporary Problems* **63**(4), 13–61. doi:10.2307/1192391.
- Chang, C. and Y. Wang: 1994, 'The Nature of the Township-Village Enterprises', *Journal of Comparative Economics* **19**, 434–452. doi:10.1006/jcec.1994.1111.
- Charap, J. and C. Harm: 1999, 'Institutionalized Corruption and the Kleptocratic State', The IMF Working Paper WP/99/91, the International Monetary Fund, Washington, DC.
- Che, J.: 2002, 'Rent-Seeking and Government Ownership of Firms: An Application to China's Township-Village Enterprises', *Journal of Comparative Economics* **30**, 787–811. doi:10.1006/jcec.2002.1800.
- Chen, H.: 2000, *The Institutional Transition of China's Township and Village Enterprises: Market Liberalization, Contractual Form Innovation and Privatization* (Ashgate, Brookfield, VT).
- Chen, C. J.: 2004, *Transforming Rural China: How Local Institutions Shape Property Rights in China* (Routledge, London).
- Ding, X.: 2000, 'System Irregularity and Spontaneous Property Transformation in the Chinese Financial System', *China Quarterly* **163**, 655–676.
- Dong, X., P. Bowles and S. P. Ho: 2002, 'The Determinants of Employee Ownership in China's Privatized Rural Industry: Evidence from Jiangsu and Shandong', *Journal of Comparative Economics* **30**, 415–437. doi:10.1006/jcec.2002.1782.
- Dougherty, S. and R. H. McGuckin: 2002, 'The Effects of Federalism and Privatization on Productivity in Chinese Firms', EPWP Working Paper No. 1-2, Conference Board, Washington, DC.
- Dunfee, T. W. and D. E. Warren: 2001, 'Is Guanxi Ethical? A Normative Analysis of Doing Business in China', *Journal of Business Ethics* **32**, 191–204. doi:10.1023/A:1010766721683.
- Dyer, J. H. and N. W. Hatch: 2006, 'Relation-Specific Capabilities and Barriers to Knowledge Transfers: Creating Advantages Through Network Relationships', *Strategic Management Journal* **27**, 701–719. doi:10.1002/smj.543.
- Evans, P.: 1998, 'Transferable Lessons? Re-Examining the Institutional Prerequisites of East Asian Economic Policies', *Journal of Development Studies* **34**, 66–86. doi:10.1080/00220389808422546.
- Fan, C. S. and H. I. Grossman: 2001, 'Incentives and Corruption in Chinese Economic Reform', *Journal of Policy Reform* **4**(3), 195–206. doi:10.1080/13841280108523419.
- Gibbons, D. E.: 2004, 'Friendship and Advice Networks in the Context of Changing Professional Values', *Administrative Science Quarterly* **49**, 238–262.
- Gong, T.: 1997, 'Forms and Characteristics of China's Corruption in the 1990s: Change with Continuity', *Communist and Post-Communist Studies* **30**, 277–288. doi:10.1016/S0967-067X(97)00008-1.
- Gong, T.: 2002, 'Dangerous Collusion: Corruption as a Collective Venture in Contemporary China', *Communist and Post-Communist Studies* **35**, 85–103. doi:10.1016/S0967-067X(01)00026-5.
- Granovetter, M.: 1985, 'Economic Action and Social Structure: The Problem of Embeddedness', *American Journal of Sociology* **91**, 481–510. doi:10.1086/228311.
- Hao, Y. and M. Johnston: 1995, 'Reform at the Crossroads: An Analysis of Chinese Corruption', *Asian Perspective* **19**(1), 117–149.
- He, Q.: 1998, *The Pitfalls of China's Modernization* (in Chinese) (Mirror Publishing, Hong Kong).
- Helmke, G. and S. Levitsky: 2003, *Informal Institutions and Comparative Politics: A Research Agenda*. Paper Presented at the Conference of Informal Institutions and Politics in Latin America, University of Notre Dame, Notre Dame, IN.
- Holmstrom, N. and R. Smith: 2000, 'The Necessity of Gangster Capitalism: Primitive Accumulation in Russia and China', *Monthly Review* **51**(9), 1–15.
- IFC (International Finance Corporation): 2000, *China's Emerging Private Enterprises: Prospects for the New Century* (International Finance Corporation, Washington, DC).

- Jain, A.: 2001, 'Corruption: A Review', *Journal of Economic Surveys* **15**, 71–121. doi:10.1111/1467-6419.00133.
- Jefferson, G. H., T. G. Rawski, L. Wang and Y. Zheng: 2000, 'Ownership, Productivity Change, and Financial Performance in Chinese Industry', *Journal of Comparative Economics* **28**, 786–813. doi:10.1006/jcec.2000.1684.
- Jensen, M. C.: 2000, *Theory of the Firm: Governance, Residual Claims, and Organizational Forms* (Harvard University Press, Boston, MA).
- Jiang, S. and R. H. Hall: 1996, 'Local Corporatism and Rural Enterprises in China's Reform', *Organization Studies* **17**(6), 929–952. doi:10.1177/017084069601700603.
- Jin, D. and K. E. Haynes: 1997, 'Economic Transition at the Edge of Order and Chaos: China's Dualist and Leading Sectoral Approach', *Journal of Economic Issues* **31**, 79–101.
- Jin, H., Y. Qian and B. R. Weingart: 1999, 'Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style', Working Paper, Stanford University, Stanford, CA.
- Johnston, M.: 1996, 'The Search for Definitions: The Vitality of Politics and the Issue of Corruption', *International Social Science Journal* **149**, 321–335.
- Johnston, M.: 1997, 'Public Officials, Private Interests, and Sustainable Democracy: When Politics and Corruption Meet', in K. A. Elliott (ed.), *Corruption and the Global Economy* (Institute for International Economics, Washington, DC), pp. 61–82.
- Kang, D.: 2002, *Crony Capitalism, Corruption and Development in South Korea and the Philippines* (Cambridge University Press, New York).
- Khatri, N., E. W. K. Tsang and T. M. Begley: 2006, 'Cronyism: A Cross-Cultural Analysis', *Journal of International Business Studies* **37**, 61–75. doi:10.1057/palgrave.jibs.8400171.
- Leff, N.: 1964, 'Economic Development Through Bureaucratic Corruption', *American Behavioral Scientist* **8**, 8–14. doi:10.1177/000276426400800303.
- Li, P. P.: 1998, 'Towards a Geocentric Framework of Organizational Form: A Holistic, Dynamic and Paradoxical Approach', *Organization Studies* **19**, 829–861. doi:10.1177/017084069801900506.
- Li, P. P.: 2005, 'The Puzzle of China's Township-Village Enterprises: The Paradox of Local Corporatism in a Dual-Track Economic Transition', *Management and Organization Review* **1**, 197–224. doi:10.1111/j.1740-8784.2005.00009.x.
- Li, P. P.: 2008, 'Toward a Geocentric Framework of Trust: An Application to Trust in Organizations', *Management and Organization Review* **4**.
- Li, P. P. and T. Chang: 2000, 'The Asian Paradox of Miracle and Debacle: An Exploratory Study', *International Finance Review* **1**, 429–453.
- Li, H. and S. Rozelle: 2003, 'Privatizing Rural China: Insider Privatization, Innovative Contracts, and the Performance of Township Enterprises', *China Quarterly* **176**, 981–1005. doi:10.1017/S0305741003000584.
- Lovett, S., L. C. Simmons and R. Kali: 1999, 'Guanxi Versus the Market: Ethics and Efficiency', *Journal of International Business Studies* **30**, 231–248. doi:10.1057/palgrave.jibs.8490068.
- Lu, X.: 2000, *Cadres and Corruption: The Organizational Involution of the Chinese Communist Party* (Stanford University Press, Stanford, CA).
- Morgan, R. M. and S. D. Hunt: 1994, 'The Commitment-Trust Theory of Relationship Marketing', *Journal of Marketing* **58**(3), 20–38. doi:10.2307/1252308.
- Nee, V.: 1992, 'Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights, and Mixed Economy in China', *Administrative Science Quarterly* **37**, 1–27. doi:10.2307/2393531.
- North, D.: 1990, *Institutions, Institutional Change and Economic Performance* (Cambridge University Press, New York).
- Oi, J. C.: 1999, *Rural China Takes Off: Institutional Foundations of Economic Reform* (University of California Press, Berkeley, CA).
- Pei, X.: 1998, *The Institutional Context of China's Rural Industry and Gradual Reform* (Lund University Press, Sweden).
- Pei, M.: 2006, *China's Trapped Transition: The Limits of Developmental Autocracy* (Harvard University Press, Cambridge, MA).
- Pejovich, S.: 1997, 'Law, Tradition, and the Transition in Eastern Europe', *The Independent Review* **2**(2), 243–254.
- Perotti, E. C., L. Sun and L. Zou: 1999, 'State-Owned Versus Township and Village Enterprises in China', *Comparative Economics Studies* **41**(2/3), 151–179.
- Putterman, L.: 1995, 'The Role of Ownership and Property Rights in China's Economic Transition', *China Quarterly* **144**, 1047–1064.
- Rawski, T. G.: 1995, 'Implications of China's Reform Experience', *China Quarterly* **144**, 1150–1173.
- Rose-Ackerman, S.: 1999, *Corruption and Government: Causes, Consequences, and Reform* (Cambridge University Press, New York).
- Rozelle, S., G. Li, M. Shen, A. Hughart and J. Giles: 1999, 'Leaving China's Farms: Survey Results of New Paths and Remaining Hurdles to Rural Migration', *China Quarterly* **158**, 367–393.
- Shi, Y., X. Zhao and Z. Chang: 2001, 'The Myth of Southern Jiangsu', *Finance* May, 33–50 (in Chinese).
- Shieh, S.: 2005, 'The Rise of Collective Corruption in China: The Xiamen Smuggling Case', *Journal of*

- Contemporary China* 14(42), 67–91. doi:[10.1080/1067056042000300790](https://doi.org/10.1080/1067056042000300790).
- Shleifer, A. and R. W. Vishny: 1999, *The Grabbing Hand: Government Pathologies and Their Cures* (Harvard University Press, Cambridge, MA).
- Spicer, A., G. A. McDermott and B. Kogut: 2000, 'Entrepreneurship and Privatization in Central Europe: The Tenuous Balance Between Destruction and Creation', *Academy of Management Review* 25(3), 630–649. doi:[10.2307/259315](https://doi.org/10.2307/259315).
- Su, C. and J. E. Littlefield: 2001, 'Entering Guanxi: A Business Ethical Dilemma in Mainland China?', *Journal of Business Ethics* 33, 199–210. doi:[10.1023/A:1017570803846](https://doi.org/10.1023/A:1017570803846).
- Sun, Y.: 2004, *Corruption and Market in Contemporary China* (Cornell University Press, Ithaca, NY).
- Thomas, M. A. and P. Meagher: 2004, 'A Corruption Primer: An Overview of Concepts in the Corruption Literature', Working Paper, the IRIS Center at the University of Maryland, College Park, MD.
- Walder, A. G.: 2003, 'Elite Opportunity in Transitional Economies', *American Sociological Review* 68, 899–916. doi:[10.2307/1519750](https://doi.org/10.2307/1519750).
- Wank, D. L.: 1999, 'Social Networks and Property Rights: Enforcement, Expectations, and Efficiency in the Urban Non-State Economy', in J. C. Oi and A. G. Walder (eds.), *Property Rights and China's Economic Reforms* (Stanford University Press, Stanford, CA), pp. 248–272.
- Weitzman, M. L. and C. Xu: 1994, 'Chinese Township-Village Enterprises as Vaguely Defined Cooperatives', *Journal of Comparative Economics* 18, 121–145. doi:[10.1006/jceec.1994.1020](https://doi.org/10.1006/jceec.1994.1020).
- Williamson, O. E.: 1993, 'Calculativeness, Trust and Economic Organization', *Journal of Law and Economics* 36, 453–486. doi:[10.1086/467284](https://doi.org/10.1086/467284).
- Woo, W. T.: 1999, 'The Real Reasons for China's Growth', *China Journal* 41, 115–137. doi:[10.2307/2667589](https://doi.org/10.2307/2667589).
- Yang, M. M.: 1994, *Gifts, Favors, and Banquets: The Art of Social Relationships in China* (Cornell University Press, Ithaca).
- Yao, S.: 2002, 'Privilege and Corruption: The Problems of China's Socialist Market Economy', *American Journal of Economics and Sociology* 61(1), 279–299. doi:[10.1111/1536-7150.00160](https://doi.org/10.1111/1536-7150.00160).
- Zhang, A., Y. Zhang and R. Zhao: 2001, 'Impact of Ownership and Competition on the Productivity of Chinese Enterprises', *Journal of Comparative Economics* 29, 327–346. doi:[10.1006/jceec.2001.1714](https://doi.org/10.1006/jceec.2001.1714).

Department of Management,
College of Business Administration,
California State University, Stanislaus,
801 West Monte Vista Avenue, Turlock, CA 95382,
U.S.A.
E-mail: pli@csustan.edu