WHY COMPETITION CANNOT EFFECTIVELY REDUCE CORRUPTION: THE CASE OF CHINA’S PUBLIC PROCUREMENT

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Why Competition Cannot Effectively Reduce Corruption: the Case of China’s Public Procurement
為何競爭無法有效減少腐敗：基於中國公共採購的分析

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ABSTRACT

Drawing on empirical data from China’s public procurement, I try to explore how and why competition mechanisms adopted in procurement management have failed to curb corruption and to gain a better understanding of the relationship between corruption and competition.

Scholars generally consider competition an important approach to containing corruption, but this is not the case in China. Since China’s market-oriented reforms began, the government has established a bidding system as a way of inducing market competition in public procurement. The government does so for two purposes, liberalizing the economy and preventing corruption. However, as the bidding system develops, corruption has become even more rampant than before. Why competition mechanisms have not been effective in controlling corruption is a puzzling question.

In this study, I employ a case study method and try to find out answers to this puzzle. The data collected from the public procurement in a Chinese city indicates that bidding competition has in fact been distorted to a large extent. Procurement actors such as government officials and firms use a variety of strategies to evade and manipulate competition mechanisms. As a result, the
effect of competition on preventing corruption is severely undermined in China’s public procurement.

Besides identifying problems in bidding competition, I take a further step to explore how and why procurement actors are able to evade and manipulate competition. The discussion among scholars on regulatory reforms shows that economic liberalization should be bound up with state regulation. In light of this academic thinking about state regulation, I develop an analytical framework to examine how China’s bidding system is regulated. As shown by this study, when the state withholds itself from excessively interfering with the market, it fails to establish a sound regulatory regime to support bidding competition. This in turn provides procurement actors with opportunities to undermine competition.

Based on these findings, I conclude that competition alone is not a panacea for controlling corruption. Economic liberalization helps but does not necessarily lead to a reduction of corruption. In China’s reforms, corruption grows despite reduced government intervention and increased market competition. In the period of economic transition, the mechanisms and processes set up for inducing market competition are particularly susceptible to manipulation. Only if coupled with vigorous state regulation can market competition successfully prevent corruption.
TABLE OF CONTENTS

ABSTRACT
ACKNOWLEDGMENT
CONTENTS
LIST OF FIGURES AND TABLES
ACRONYMS

CONTENTS

CHAPTER ONE

INTRODUCTION .............................................................................................1
Relationship between competition and corruption: a puzzle ........2
Key concepts ...................................................................................................7
Major arguments: a preview.................................................................10
  Corruption in the context of market competition ......................11
  State regulation and regulatory failure .....................................13
  The role of regulatory agencies .......................................................18
Research design .........................................................................................20
  Analytical focuses ..............................................................................20
  Methodology .........................................................................................23
  Data collection .......................................................................................24
Thesis structure .........................................................................................27
CHAPTER TWO
LITERATURE REVIEW..........................................................29
Corruption: definitions and approaches.................................30
Defining corruption..................................................................30
The moral approach ..................................................................31
The market approach ................................................................33
The legal approach ..................................................................36
Corruption and the transitional economy.................................37
Procurement corruption ..........................................................45
Procurement corruption in the global context .........................45
Procurement corruption in China.............................................49

CHAPTER THREE
THE DEVELOPMENT OF PUBLIC PROCUREMENT IN CHINA.53
The Emergence of a bidding system in public procurement .......53
Public procurement in a planned economy...............................54
Introducing competition into public procurement ...................56
The Chinese public procurement system .................................60
Procurement methods .............................................................61
Institutions and actors in public procurement ..........................68
Supportive measures for public procurement ..........................71
Preventing corruption through competition .............................74
Rampant corruption in public procurement .............................79
Negative effects caused by procurement corruption ...............86
CHAPTER FOUR
COMPLETION AND REGULATION IN WORKS
PROCUREMENT

Works procurement: an overview

The procurement of construction services in City X

Undermined competition
Hidden corruption behind bid-rigging

Ineffective regulation and manipulated competition

The independence of regulatory agencies
Competition rules and referees
Regulatory enforcement

CHAPTER FIVE
COMPLETION AND REGULATION IN GOVERNMENT
PROCUREMENT

Government procurement: a special category

Corruption and degraded competition in government

procurement
Shifting procurement methods to reduce competition
Tailor-made bid invitations
Regulatory modes
Dependent and powerless regulators
Competition rules
Competition referees
CHAPTER SIX

CONCLUSION ........................................................................................................ 169

Explaining the failure of the bidding system ...................................................... 170

Undermined competition ................................................................................. 170

Intensified corruption in transition economy .................................................. 174

Under-developed regulation .......................................................................... 177

Regulation modes and corruption forms ......................................................... 180

Concluding remarks ......................................................................................... 183
LIST OF FIGURES AND TABLES

FIGURE

3.1 The development of government procurement, 2005-009 61
3.2 The main steps of bidding in public procurement 67
5.1 The scale of government procurement (billion yuan), 2003-2010 138
5.2 The main processes of a government procurement project in City X 143
6.1 Relationships among corruption, competition, and regulation 187

TABLE

3.1 A description of procurement methods 63
3.2 Common corruption strategies in China’s public procurement 84
4.1 The service fees for bidding activities in City X 115
<table>
<thead>
<tr>
<th>ACRONYM</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>BMO</td>
<td>Bidding Management Office</td>
</tr>
<tr>
<td>CCDI</td>
<td>Central Commission for Discipline Inspection</td>
</tr>
<tr>
<td>CPCGP</td>
<td>Centralized Purchasing Catalogue for Government Procurement</td>
</tr>
<tr>
<td>DIC</td>
<td>Discipline Inspection Commission</td>
</tr>
<tr>
<td>GPA</td>
<td>Government Procurement Agreement</td>
</tr>
<tr>
<td>GPC</td>
<td>Government Procurement Center</td>
</tr>
<tr>
<td>GPMS</td>
<td>Government Procurement Management Section</td>
</tr>
<tr>
<td>IRA</td>
<td>Independent Regulatory Agency</td>
</tr>
<tr>
<td>MBT</td>
<td>Municipal Bureau of Transport</td>
</tr>
<tr>
<td>MHURD</td>
<td>Ministry of Housing and Urban-Rural Development</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MOR</td>
<td>Ministry of Railways</td>
</tr>
<tr>
<td>MOS</td>
<td>Ministry of Supervision</td>
</tr>
<tr>
<td>MOT</td>
<td>Ministry of Transport</td>
</tr>
<tr>
<td>MOWS</td>
<td>Ministry of Water Sources</td>
</tr>
<tr>
<td>NAO</td>
<td>National Audit Office</td>
</tr>
<tr>
<td>NDRC</td>
<td>National Development and Reform Commission</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PCH</td>
<td>Project Construction Headquarters</td>
</tr>
<tr>
<td>PCM</td>
<td>Physical Construction Market</td>
</tr>
<tr>
<td>TI</td>
<td>Transparency International</td>
</tr>
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<td>United Nation Commission on International Trade Law</td>
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