

Introduction

Commercial activity entails many risks with the potential to 'shrink' profit margins. Losses arising from wastage, damage, fraud and theft are an integral part of the cost of doing business. Crime is a ubiquitous factor in commercial life, a 'cost' to avoid, minimise and manage. Losses from theft and fraud can sometimes be fatal to business survival, but usually losses are absorbed or passed on to clients or consumers. Drawing on the experiences of more than 5000 businesses, the research reported here seeks to understand the scale and impact of crime on business in the People's Republic of China, exploring both conventional or common 'street' crimes, such as burglary, robbery and theft, and crimes that specifically target business such as fraud, counterfeiting, bribery and extortion. We estimate that in the year of the survey, our sample of 5117 businesses suffered a total annual loss to crime of US\$20.35 million, most of which was due to fraud by either employees (US\$7.45 million) or outsiders (US\$7.56 million). We were able to extrapolate these losses to all Hong Kong companies and estimate that annual losses reached approximately US\$1.52 billion in 2004; however, data about the size and nature of the population of businesses in the mainland cities of Shanghai, Shenzhen and Xi'an are insufficient to determine the representativeness of our sample. At best, we offer a 'guesstimate', based on untested assumptions, that suggests that about US\$4.9 billion is lost to crime annually in these three mainland cities.

A vast literature addresses street crime and the social impact of crime but much less has been written about crimes against business. Apart from interest in 'white-collar' and corporate crime and crime perpetrated by business against employees, customers or society in general, little is known about business as a victim of crime. The relationship between crime in the broader society and crime against business is a matter little explored. The available evidence suggests that businesses are at much higher risks of theft than households or individuals and their losses can have a significant impact on investment and growth. Crimes such as robbery, theft, fraud, extortion, bribery and criminal damage form a significant cost impost in certain high-risk business activities. Significant financial and psychological costs are reported for small business, and crime victimisation is not randomly distributed (Gill 1998; Shury et al. 2005; Taylor and Mayhew 2002; van Dijk and Terlouw 1996). Crime can also damage brand reputation, the value of shares, staff morale and companies' standing with government regulators and police. In addition, a real or even a perceived high rate of crime can have unwanted consequences and incur additional costs for individual behaviour (risk avoidance), business investment, the price of products, tax revenues and tourism.

Like ordinary citizens, businesses rely in part on the public police to protect their property and activities from crime. They might even seek to influence the role and deployment of public police, who are key actors in crime prevention and crime detection. Unlike street crime or public-order offences, however, to which state or public police are normally expected to respond, some crimes against business might attract little interest from public police (for example, copyright violations, shop theft). Police resource and capacity limitations might also result in inadequate support for businesses that are victims of crime. Major fraud cases often require specialist expertise and often involve complex deception that could easily overwhelm the available law-enforcement expertise. The costs of crime and its prevention represent a considerable burden on state revenues, and police, like other public services, are subject to rationing. In these circumstances, some of the burden of policing will increasingly need to be shared with community and business ‘partners’ (see Ayling et al. 2009).

As a consequence, and given that the risks of crime are seen as a normal feature of commercial activity, businesses have adopted countermeasures—often at the industry/sector level—to minimise exposure to crime. They typically respond to the risks of crime by improving their internal controls over loss mitigation, applying external or internal auditing schemes, training staff and providing company governance and ethics guidelines, rotating personnel and duties and participating in crime-prevention initiatives. Investment in private security services and in risk mitigation is widely practised by large businesses, but smaller ones tend to rely more on public police and some forms of collective protective security practices, such as the hiring of security guards or the installation of CCTV for common areas and activities. This tradition of self-help, however, has limits, and businesses, like other institutions and activities, are part of society, and societies can experience wide fluctuations in the rate of crime. Indeed the People’s Republic of China (PRC) has experienced, in the language of its security officials, several crime ‘waves’ and ‘high tides’ of crime since 1949 (Dutton 1997) and recognises that it is currently going through a wave of economic crime that is yet to peak (Jiang 2004; Lu 2011). The extent and nature of crime will, therefore, have a bearing on how businesses cope with its consequences, but social forces beyond the control of business and governments will play a significant role in the actual risk to business.

Perspectives on Crime

The character and extent of crime in a particular time and place are often treated as proxy measures of a society’s virtue and social cohesion. The frequency and severity of criminal events and the effectiveness of the response of the state, via its police and courts, are also a reflection of the quality of governance and fidelity

to the rule of law. Since Durkheim's seminal analysis of the impact of rapid economic and cultural change on crime in the nineteenth and early twentieth centuries, shifts in patterns of crime have been seen as emblematic of social and cultural strain. Durkheim's concept of 'anomie' or normlessness captures the uncertainty and ambiguities of social conduct and the rules of everyday life that arise in complex modern societies. Modernity, especially in the economic sphere, necessitates tolerance of difference but also creates the circumstances for deviance because as social integration and regulation falter, adherence to social rules becomes more a matter of choice than compulsion. Crime, then, is a normal (functional) outcome of social and economic change when social integration and regulation are weakened by a focus on individuality, but crime is also a focus for social solidarity around moral and legal rules (Durkheim 1964, 1997).

Durkheim anticipated the impact of the cult of individualism in modern society and the decline of religious or moral solidarity in creating social order (Marks 1974; Rock 2002). In a society faced with uncertainty about its social or religious values, or in the case of China, with a shift from austere communism to a socialist market economy, social control would have to rely more on the state and its legal apparatus than on social conventions, gossip and traditional forms of social hierarchy. Merton (1968), reflecting on the rapid social and economic changes in American society in the 1920s and 1930s and the associated widespread corruption, used the concept of anomie (in his adaptation of the term, arising from the disconnect or strain between cultural goals of success and the institutional means of achieving these goals) to explain the increases in crime as the innovative response to inadequate opportunities in a supposedly merit-based, equal society. The criminal deviance of the notorious gangster of this period, Al Capone, was, in this sense, that of an arch innovator seeking out the best means to achieve the American dream of success through wealth (cf. Merton 1938). In Chapter 2, we examine in greater depth how theories of modernisation and crime fit the context of China's economic opening and modernisation.

The functionalist approach to crime suggested by Durkheim, Merton and others provides an account of macro-level conditions conducive to crime but offers little guidance on the specific risks for individuals and businesses, except for broad policies designed to mitigate disadvantage or strain. From a crime-prevention perspective, routine activity theory offers a more prescriptive approach to criminal incidents resulting from the convergence of three factors: a motivated offender and his/her resources (for example, skills, contacts), attractive targets and the absence of capable guardians (Cohen and Felson 1979).¹ Routine activity

¹ These authors and others have written extensively about routine activity theory or situational crime prevention, and incorporate ideas of crime prevention through environmental design (see further Clarke 1995; Clarke and Felson 1993; Felson 1998; Felson and Clarke 1998).

posits both instrumental and rational decision making as key offender attributes, and does not rely on pathologies to explain criminal motivation, although individual pathologies might lead to irrational decisions. These 'situational' crime-prevention approaches do not focus on the offender but on the offence, and propose making potential targets of crime less attractive and strengthening guardianship as preferred solutions; what matters is the reduction of criminal opportunities rather than attempts to change offenders. Many businesses and industry bodies have successfully applied this approach to crime prevention, and the systematic adoption of such strategies in partnership with police still holds great promise in reducing the impact of crime on small and large business operations (Clarke 1995).

These perspectives on crime were developed in Western capitalist economies. We do not know how well they would apply in socialist nations or transitional economies. The abrupt transition to a market economy that followed the collapse of the Soviet Union has resulted in widespread lawlessness, the rapid expansion of organised crime groups who took over legitimate enterprises, and intense corruption. The rule of law was not implemented; instead the legal structures and state-control apparatus disintegrated and organised crime merged with the political leadership (see, for example, Karstedt 2003; Ledeneva and Kurkchian 2000; Sergeyev 1998; Shelley 1995a, 1995b). Shelley points out that 'Russia, unlike China, tried to simultaneously create a free market and a democratic society. Therefore, citizens have been unable to determine whether their present criminalised economy is a result of the difficulties encountered in creating capitalism or forming democratic institutions' (Shelley 1995b:245). The International Crime against Business Survey (ICBS) is able to shed light on some of the consequences of the Chinese transition from a command to a market economy and its opening to Western markets. Throughout the book, we present comparisons between the results of the China ICBS and that of a similar survey conducted in Eastern Europe in the post-Soviet period (Alvazzi del Frate 2004).

Economic Transformation and Crime

China's 'open-door' policy was instigated under the premiership of Deng Xiaoping in the late 1970s as the principal means of modernising China after the destructive impact of the 'Great Leap Forward' and the Cultural Revolution. Deng's vision was that if China's socialist modernisation was to succeed it had to engage the latent entrepreneurship and productivity of the people with the idea that 'poverty is not socialism—to be rich is glorious', as he famously put it in

his 1992 southern tour.² Deng's essential pragmatic approach of 'seeking truth from facts' ('it does not matter what colour a cat is as long as it hunts mice') and of assessing what works by trial and error ('cross the river by feeling for the stones with your feet') formed the basic ingredients for unleashing the economic potential of China.³ Discarding class struggle as the key party strategy for socialist modernisation to concentrate on the development of China's productive forces was critical but only in the context of firm government leadership.⁴ Social disorder, including crime, was to be kept in check by political unity.

The economic renaissance of China was nevertheless guided by the 'Four Cardinal Principles' of the Chinese Communist Party (CCP)—namely: 1) the socialist path; 2) the dictatorship of the proletariat (the people's democratic dictatorship); 3) the leadership of the Communist Party; and 4) Marxist-Leninism and Mao Zedong thought.⁵ The Twelfth National Congress in September 1982 confirmed the open-door policy, and Deng affirmed the classical Marxist position that China makes its own history, building socialism with Chinese characteristics. Thus began one of the great social transformations of modern history. As Golley and Song observe, the results were spectacular:

Within just three decades, China has succeeded in transforming itself from a centrally planned closed economy into one of the world's most dynamic and globally integrated market economies. The dynamics unleashed by Deng Xiaoping's reforms, open-door policies and institutional changes have unleashed enormous entrepreneurial energy and propelled continuous capital accumulation, productivity gains and trade and income growth on a scale the world has never seen before. During this period, China's total gross domestic product (GDP), industrial output, foreign trade and, importantly, its per capita income

2 During the 1992 southern tour, the famous phrase 'to be rich is glorious' seemed to be a catchcry of the press (see Deng Xiaoping 1994; Zhao 1993).

3 The Sixth Plenary Session of the Eleventh Central Committee adopted the 'Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China', which condemned the Cultural Revolution and re-evaluated Mao's role, affirming his contributions but acknowledging his mistakes in later years. The 70 per cent correct (in respect to the official view of Mao's legacy) resolution helped unify the Communist Party of China and permitted an orderly transition under stable government. (See *People's Daily*, online English version, undated and reproduced in 'The life of Deng Xiaoping', *Chinabusinessworld.com*, viewed 5 February 2011, <www.cbw.com/asm/xpdeng/life.html>).

4 Deng's goals for China were: first, to quadruple the 1980 gross national product (GNP) by the end of the century to raise the people's standard of living; and second, on the basis of that achievement, to again quadruple GNP over the following 30–50 years, to reach the level of the moderately developed countries. He argued that China would have pointed the way for all the people of the Third World and demonstrated to humankind that socialism was superior to capitalism.

5 According to Deng Xiaoping, the approach was about achieving socialist modernisation: 'to carry it out and make China prosperous we must, first, carry out the policies of reform and opening to the outside world, and we must, second, adhere to the Four Cardinal Principles, the most important of which are to uphold leadership by the Party and to keep to the socialist road, opposing bourgeois liberalisation and a turn to capitalism. These two points are interrelated' (Deng Xiaoping 1987, cited in the Deng hagiography in *People's Daily* online n.d.).

increased respectively by factors of 16, 27, 124 and 12. As a result, the incidence and severity of poverty have declined dramatically in China. (Golley and Song 2010:1)⁶

With annual growth rates often exceeding 10 per cent per annum over the past 30 years, China's economy has been rapidly restructured and modernised with significant impact on everyday life, but has remained based on the pragmatism advocated by Deng and the strategy of retaining political control to ensure economic and social transformation. This approach was vindicated by the instability and eventually the failure of Gorbachev's *glasnost* and *perestroika* that relied on a top-down approach in the Soviet Union (Evans 1997). The legacy of Deng's socialist market economy has been spectacular economic growth, but it also encountered numerous problems such as unprofitable state-owned enterprises, regional imbalances and urban–rural wealth disparity. Economic expansion came at a cost to social cohesion, and, like many emerging/developing market economies, China has had to confront problems of crime and corruption.

The liberalisation of labour mobility so critical to rapid economic growth led to the accelerated urbanisation of Chinese life: in the 1970s, 20 per cent of the population lived in towns and cities compared with 47 per cent in 2009, when the 'floating population' of urban migrant workers was estimated at 160 million (Cai and Wang 2010). Urbanisation was not, however, accompanied by effective public infrastructure development and social welfare measures. Large numbers of mobile peasant workers in pursuit of work in the cities quickly transformed into a mass of disconnected and disaffected workers, radically increasing both the pool of potential offenders and the opportunities for crime.

Urbanisation is one of the major general drivers of crime, combining both opportunity for crime through the presence of attractive targets and the enhancement of anonymity and anomie (Newman 1999; Shelley 1995b). The impact of broad economic change on social cohesion has not escaped the attention of Chinese authorities, particularly the potential disorder that could result from millions of internal economic migrants who might transform into a 'dangerous class' worthy of special policing and regulation.

'Although some areas and segments of society were notably better off than before, the re-emergence of significant inequality did little to legitimise the Communist Party's founding ideals, as the Party faced increasing social unrest' (*People's Daily* online n.d.). Growing inequality, the collapse of the Soviet Union and other communist states, and the pressure for political reform within

6 Although the massive restructuring of the economy created a new urban poor—the so-called 'floating population' of rural migrants—'between 1981 and 2004, the fraction of China's population consuming less than US\$1 a day in today's purchasing power fell from 65 per cent to 10 per cent and about half a billion people were lifted out of poverty' (World Bank 2009:iii, cited in Golly and Song 2010:1).

China (as illustrated by the 4 June 1989 Tiananmen Square incident) ushered in important regulatory transformations to the political and policing arms of the state. The 1987 Thirteenth National Congress endorsed reforms that sought to separate the functions of the party and the Government, delegating powers to lower levels, reforming government institutions and oversight of party cadres, and improving grassroots consultation (for an overview of legal reforms post 1980, see Zou 2000).

Given the contradictions between the ideal of socialism and the pragmatic politics of market socialism, significant cultural and ideological changes were needed to support economic prosperity. In short, a capitalist China could not modernise society in isolation and political disunity would undermine the prosperity engendered by economic reform. Currently, China faces a new transitional phase, which could pose even greater challenges as labour costs rise and consumption falls in response to a rapid decline in the Chinese population. In this context, policing as a key function of an authoritarian state might have limited capacity to manage threats and social differences. Golley and Song observe:

[I]ncome inequality and widening regional disparities, along with uneven access to health services and social welfare systems, are some of the most undesirable outcomes associated with the rapid economic growth of the past. Failure to deal with these issues could pose the greatest threats to social stability, which in turn could become a serious obstacle for growth and development in the decades ahead. (Golley and Song 2010:5)

China's next transition from an export-driven economy to one that is focused on domestic consumption and growth might indeed highlight inequality within cities and between the cities and the countryside, and increase crime (Shaw 2006). Thus, the problem of social disorder remains a major risk in maintaining China's exceptional economic growth, and could threaten China's millions of businesses. Under the Government's 'harmonious society' slogan, high expectations and demands for policing are created—often stimulated by an actual and/or a perceived increase in crime (Trevaskes 2010a). The close ideological association between crime and the problem of political stability also creates additional problems in the legal reform process and the modernisation of police (Dutton 2006). The costs of domestic public order have grown rapidly in China, even rivalling defence, and the legitimacy of the police will depend increasingly on their efforts to curb crimes such as fraud, corruption and organised crime (Sun et al. 2010; *The Economist* 2011b). From our perspective, therefore, the legitimacy of China's police and courts will be crucial given the presence of two powerful drivers of crime: inequality and urbanisation. The

role public police play in producing order should be of interest to households and business since effective policing engenders both stability and legitimacy, which are cornerstones of effective crime prevention.

Social Change, Crime and Policing

As we remarked earlier, the Chinese Government and its public security apparatus have long acknowledged the impact of economic development on the emergence of illegitimate opportunities, including opportunities for economic crime. In 1989, the Ministry of Public Security (MPS) Research Unit Number Five produced an influential assessment of crime titled *The Basic Character of Crime in Contemporary China* (see Dutton 1997). This confidential report highlighted the seriousness of the crime situation and the loss of the old order and control over a once stable population managed by the household registration system, work units and neighbourhood committees. It also unwittingly depicted the police in 'crisis management mode' driven to campaign-style or *yanda* (strike-hard) policing (Dutton 1997:160). The report acknowledged that crime stemmed from social contradictions, but that these had been deepened by the commodity economy and the transition from an old system to a new one with more conflicts and 'loopholes' in social administration (Dutton 1997:161). It also noted the changes in the offenders' demography, especially the increasing number of offenders from among the unemployed ('idlers') and the emergence of gangs. The imperfect nature of the legal response was recognised as well as the weaknesses in the ability to control and guard against crime. The rapid rise in property crimes, including crimes against business and state-owned enterprises, and a clear expectation that such crimes would continue to rise were explained in terms of rapid changes in values.

Many factors account for the large increase in criminal cases involving property, but all are closely linked to the present social and economic situation in China. In recent years, there has been vigorous development of the socialist commodity economy. The commodity economy is a powerful lever for improving social development, but it is also a major inducement to crime. With the development of a commodity economy, money has functioned as a 'battering ram', knocking down traditional values and concepts. As a result, there have been great changes in people's ideology. The historical tradition of looking down on trade has disappeared. In its place has emerged a new craze for trade and running businesses. What many people now want is simply to make money. At the same time, there has been one wave after another of consumerism that has engulfed the country. The huge gap between the high consumption lust and existing buying power of the people has

resulted in a serious contradiction emerging. Stimulated by the above factors, some people who cannot fulfil their personal desires for material enjoyment through legal or proper means have taken the other route—namely, getting money through criminal activity (MPS Research Unit Number Five, cited in Dutton 1997:165).

The situation described in the quote above illustrates a typical Mertonian⁷ ‘innovative adaptation’ and suggests that in the context of China’s rapid economic and social changes, functionalist theories of crime as a form of adaptation to strain enhanced by institutional anomie are relevant (Bernburg 2002; Messner and Rosenfield 2009). Institutional or regulatory weakness occurs alongside Mertonian anomie when the ‘rules of the game’ are unclear, such as in a transitional economy or a colonial order of dubious legitimacy. In these circumstances, a permissive environment for crime emerges, exacerbated by the limited capabilities of police and other forces of law and order (capable guardians in routine activity theory). As a consequence, China’s policing agencies have embarked on an extensive process of modernisation and adaptation to the new social problems presented by the unremitting economic transformations that followed Deng Xiaoping’s open-door policies. In Chapter 2, we outline some of the criminal justice reforms implemented by the Chinese Government to boost police effectiveness in controlling crime and corruption, and enhance the legitimacy of the police with the Chinese people.

The rise of economic crime (broadly defined in China as money laundering, deceptive contracts, fraudulent tax evasion, false cheques, fake trademarks, food and medicine counterfeiting and infringements of intellectual property rights) has also attracted the attention of the Government. In 2004, the Ministry of Public Security convened a national conference on economic crime in response to concerns about another potential crime wave. At this forum, Premier Wen Jiabao, stressed the dangers of such crimes not only to the interest of the people but also to economic and financial order, and the Minister of Public Security, Zhou Yongkang, warned of the destructive impact of economic crime and its connection with corruption (Jiang 2004). Chen Anfu, Director of the Department of Economic Crime Investigation of the Ministry of Public Security, reported that since 2000 his department had investigated 277 000 cases of economic crime, arrested 262 000 suspects and recovered CNY67 billion (US\$8.1 billion or an estimated US\$2 billion annually).⁸ Chen noted that many of those arrested were well educated, had special skills or knowledge and usually operated from within their work units. According to the Ministry of Public Security, illegal

7 As in reference to Robert Merton’s ‘strain theory’ interpretation of Durkheim functional theory in the context of American capitalism and the role of unintended consequences (see Merton 1968).

8 Compare these estimated losses with those reported in 1987 by the Public Security Bureau when the cost of property crime was estimated at CNY530 million (US\$64 million) and that of exceptional fraud cases at CNY240 million (US\$29.6 million) (Dutton 1997:164, 167).

pyramid selling had become 'an economic cult', involving the jobless, laid-off workers and farmers, university students, soldiers and even public servants. Chen also predicted that intellectual property (IP) infringement cases would increase rapidly in the future and noted that 'the police should also improve capability through team building and resist corruption' (Jiang 2004).

Reforms of the Chinese Public Security Bureau (PSB), especially the adoption of police beat or foot patrols in the major cities such as Shanghai in the early 1990s, and more proactive methods of policing were fundamental to the expansion and professionalisation of policing (Fu 1990, 2003). They were equally fundamental for crime-prevention practices based on the establishment of closer relations with local businesses and households. Other changes have included improved training, specialisation (in traffic, forensics, and so on), modernisation of equipment (for example, vehicles, radios, databases), reorganisation of detective or judicial police functions, integrity oversight functions and versions of 'community policing' (Wong 2001, 2011). At the same time, following a reorganisation after the Tiananmen Square incident, reforms to the People's Armed Police (PAP) under State Council and Military Commission supervision augmented the policing apparatus by providing a *garde mobile* for the control of crime and domestic disorder (Cheung 1996). This was followed by concerted efforts from 1998 under Minister of Public Security, Jia Chunwang, in accord with Premier Zhu Yongji's general reforms of the civil service, to modernise policing practices. These reforms included the removal of unqualified officers, a focus on clearing crime (with less focus on crime reports, which are prone to manipulation), a central inspection and supervision system, attempts at the reduction of corruption among police (reinforced with an open telephone [110] call service), and reorganisation of the Ministry of Public Security (Dai 2001). In short, many police reforms have focused on 'reassurance' and public-order policing, especially in urban areas where great concern existed over the criminal potential of the floating population of internal migrants (Bakken 2004; Nielsen and Smyth 2009).

These police reforms seem to have had some impact on the rise of common crimes but the effect on crime prevention within the business community has been limited. Campaign-style policing ('strike hard') and harsh and swift punishment, which had been the bedrock of policing strategy until recently (Trevaskes 2010a, 2010b), are possibly effective against street crimes and more visible forms of deviance in authoritarian contexts but seem inept means of uncovering financial fraud. These 'strike-hard' mass campaigns bolstered by bonuses for police (a process of commodification; cf. Dutton 2006) and a compliant judicial process seldom focused on 'white-collar' or 'cadre' crimes such as fraud. Tax evasion and counterfeit products featured in campaigns between 2000 and 2007 and economic crime in 1982 but there has not been the sustained

attention given to ‘non-conventional’ crime that has been given to common or street crimes such as robbery (Trevaskes 2010a). The Hong Kong Police have a dedicated crime-prevention unit and Shenzhen police have undertaken crime-prevention campaigns (Zhong 2009a). As we report in Chapter 8, however, only a minority of the businesses in our study was interested and had engaged in cooperative action with the police, and there is considerable room to further develop collective crime-prevention approaches. Chinese police in general have yet to engender the co-production of crime control and prevention within the community or within economic units in the sense that *reassurance policing*⁹ is understood as the police response to public demands through a combination of ‘soft’ and coercive ‘hard’ policing practices (Innes 2005).

Corruption and Organised Crime

Low crime rates, low levels of fear of crime and high levels of public safety are theoretically associated with good governance, while high crime levels, particularly when they involve criminal organisations, are associated with poor standards of governance and corruption (Chin and Godson 2006). The scale of corruption has intensified since the mid-1990s and involves many more high-level party officials, whose punishment has become the focus for the development of a culture of clean government (Li 2010). Although since the economic reforms corruption has worsened, it has not become rampant or out of control, but nevertheless remains a serious issue for ordinary Chinese and a threat to government legitimacy (Li 2010; NBS 2007; Gong 2010; Wedeman 2004, 2008). Corruption in government and corporate affairs is largely seen as a consequence of lack of transparency and weak regulatory practices inherent in a state where party and government are intertwined and checks and balances fail because the all important political and legal oversight institutions are not independent (Gong 2004, 2008; Wedeman 2004, 2006, 2008). There is, however, little evidence that such corruption has hindered economic growth. Wedeman’s (2004) analysis of corruption in China addresses the apparent contradiction between continued economic success and increases in corruption.¹⁰ He argues that anti-corruption campaigns have impacted on low-level ‘anarchic’ corruption

9 Reassurance policing is defined as ‘an approach that integrates the delivery of formal social control with other local sources, rather than automatically privileging the role of the police; thereby, at least partially countering increasing expectations of and dependency on the state’ (Innes and Roberts 2008:242).

10 ‘If corruption increased in gross quantitative terms during the initial phase of reform and intensified in the later phases, then simple assumptions about its negative economic consequences clearly need to be critically re-examined and the apparent contradiction between rising corruption and rapid growth in China resolved’ (Wedeman 2004:920).

while the negative consequences of organised high-level corruption have lower transaction costs, because they are more predictable and less likely to involve the risk of exposure; thus:

[T]he apparent contradiction between ‘worsening’ corruption and China’s extraordinarily high rate of growth might be, in part, a function of reductions in low-level corruption and the forging of a collusive relationship between high-ranking cadres and the emerging business community, wherein those with political power have material incentives to facilitate profit-making by their ‘business partners.’ (Wedeman 2004:920)

Tanner and Green (2007) also note the high degree of public security decentralisation practised, despite its unitary structure, by the Chinese state, which largely stems from fears of a Soviet-style centralised police force of the kind that led to abuses in the 1930s Chinese Soviet.¹¹ Thus, ordinary police have no jurisdiction over the CCP, which is reluctant to have public security work monopolised by professional state agencies—a situation that undermines the assertion of the rule of law over the rule of man. Public security ‘is to be handled by the mass...The mass line principle...is to transform public security work to be the work of the whole people’.¹² Given the authoritarian character of the state and police, the mass-line approach is essentially top down and, as noted earlier, not the kind of co-production of policing that engages communities in priority setting or cedes power away from police (per Innes and Roberts 2008). Other factors—such as the difficulty of monitoring police work and the limited nature of oversight of police by Beijing or provincial heads of the Ministry of Public Security—are equally relevant to corrupt party officials’ relative impunity. The high degree of autonomy occurs because in the main the PSB is funded by local governments, who in turn look to the local CCP legal and political committees to govern the PSB and resolve disputes between the courts, police and other law-enforcement/regulatory agencies (Tanner and Green 2007). The local political committees include the head of the PSB, so this structure is unlikely to provide sufficient independence to investigate police misconduct or corruption among officials, and the courts remain second in status to the police (Clarke 2007). So the problem of who guards the guardians (*quis custodiet ipsos custodes*) can be acute at the local county and township levels, but stems from the same structure at the centre (Trevaskes 2010a). Widely publicised corruption cases such as the one that occurred in Chongqing in 2009 involving entrepreneur

11 The Chinese Soviet Republic or the Jiangxi Soviet was established in late 1931 by Mao Zedong and General Zhu De but was eventually overrun by the Kuomintang in October 1934, precipitating the famous Long March of the Chinese communists. The Chinese Soviet was officially dissolved in September 1937 as part of the united-front strategy of the communists and nationalists in response to the outbreak of the Sino-Japanese war.

12 Minister of Public Security, Lui Ruixing, 1994, cited in Wong (2001:1).

Li Chian, who through intimidation and bribery gained control over transport in the city, illustrate the growing sophistication of criminal activity and the weakness of local institutional oversight. Li had on his payroll a large number of officials, including the Deputy Chief of the PSB. He was sentenced to 20 years' imprisonment and fined CNY2.5 billion (US\$376 million) (Dai 2010). China's internal and foreign intelligence service, the powerful Ministry of State Security, which is responsible to the State Council, is also responsible for revenue protection and the prevention of threats to China, and could therefore play a decisive role in matters involving corruption especially if foreign interests are involved, as in the Rio Tinto bribery case noted below.

Much of what has been written about crime in China has focused on corruption and what might be done to overcome its corrosive and persistent influence. In addition to its political impact in terms of legitimacy and stability, corruption in China has also received sustained attention from economists and business analysts. This is not surprising as 6 per cent of the businesses in our survey reported incidents of bribery in the past year. The risks were higher in mainland cities than in Hong Kong,¹³ and in large businesses, particularly those engaged in manufacturing (see Chapter 5). Businesses which had been the victims of corruption revealed that instigators were as often the managers or employees of other companies as state officials. Although corruption involving government agencies is cause for alarm, corruption among corporations and other private business actors is equally damaging (Kaufman et al. 2009).

Much of Chinese business remains within the sphere of state-owned enterprises, and company officers are indeed as likely to be involved in corrupt practices as state officials. Illustrating that point is the case of Australian Rio Tinto executive Stern Hu, arrested in July 2009 along with three Chinese colleagues and sentenced in March 2010 to a total of 10 years' imprisonment for bribery and for stealing business secrets. The case centred on Hu's role in Rio Tinto's negotiations with Chinese steel producers over the price of iron ore—then in high demand. Hu had obtained, by paying lavish bribes to officials in the Chinese steel industry, highly detailed and sensitive information about Rio's customers, including storage levels and sales plans, which gave him insider knowledge about the kinds of prices that might be sought. He was also in receipt of unlawful commissions provided by Chinese steel executives hoping for preferable treatment in obtaining the ore (Sainsbury 2010). A number of China's trading partners are regulated by extra-territorial laws criminalising such corrupt conduct even if it occurs overseas. Another recent example involved

13 Throughout this book, for brevity, we use Hong Kong when referring to the Hong Kong Special Administrative Region (SAR) of the People's Republic of China and, to distinguish geographically the PRC from its islands, including Hong Kong, we use the term mainland or mainland China.

the US firm IBM, which was fined for breach of the US Foreign Corrupt Practices Act for providing gifts and entertainment to Chinese officials in order to secure preferential treatment in government contracts (China Economic Review 2011).

The US Foreign Corrupt Practices Act of 1977 and the Australian Commonwealth Criminal Code Amendment (Bribery of Foreign Public Officials) Act 1999 are examples of legislative attempts by a growing number of states that wish to ensure fair access to overseas contracts, untainted by bribery, and have endorsed the Organisation for Economic Cooperation and Development (OECD) 1997 Anti-Bribery Convention (Hill 2000). As of 2010, 38 countries have adopted the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Japan and South Korea are, however, the only parties from Asia. The Convention observes in its preamble: 'bribery is a widespread phenomenon in international business transactions, including trade and investment, which raises serious moral and political concerns, undermines good governance and economic development, and distorts international competitive conditions.'¹⁴ Wilder and Ahrens (2001) note that corruption in international business transactions has significant negative effects, including, for businesses that engaged in bribery, the risk of being threatened by extortionists with public disclosure and contract cancellations. They list many harmful consequences such as distorted tendering processes and priorities for government contracts (for example, encouraging 'white elephant' or redundant investment projects); drawing funds away from the public to the private sector with a disproportionate impact on the very poor who are more dependent on government funds; undermining equity, efficiency and integrity in the public service; undercutting aid programs; and adding uncertainty and extra costs for businesses.

As part of a raft of reforms to the Criminal Law of the PRC in 2011, the bribery of foreign officials was also criminalised (Article 164 as amended), in recognition of the growing role of Chinese business abroad and the inherent risks illustrated by cases such as the Rio Tinto example. These reforms (the Eighth Amendment passed at the nineteenth meeting of the Standing Committee of the Eleventh National People's Congress on 25 February 2011) focused on enhanced punishment and redefined laws in respect of food adulteration, bogus medicines and corruption of officials, which had been at the forefront of public scandals that had threatened political stability and the legitimacy of police and judicial organs (College for Criminal Law Science of Beijing Normal University 2011). The extensive revision of Article 294 that redefined organised crime or 'black

14 Convention on Combating Bribery of Foreign Public Officials in International Business Transactions: see <www.oecd.org/dataoecd/4/18/38028044.pdf>

societies' more clearly and addressed the role of public officials or 'umbrellas' in the spread of such crime was belated recognition that more needed to be done about the penetration of business by organised crime.

Another source of potential corruption has been the rapid expansion of Chinese stock markets where some government officials have fraudulently disclosed confidential market information. Chinese equity markets have, over eight years (2002–10), reportedly lost US\$30 billion, of which only US\$4.5 billion has been recovered, despite efforts by the State Council to improve regulatory controls, especially over insider-related trading. Since 2008 (up to late 2010—details not reported), the securities regulator reported 295 insider cases or 45 per cent of all cases pursued. The scale of such losses appears to be modest when compared with the pervasive money laundering and estimated US\$120 billion reported by the Bank of China¹⁵ to have been taken out of the country by 16–18 000 corrupt officials between 1994 and 2008 (Lewis 2011). The prominent case of Huang Gangyu of Gome Electronics who was convicted of insider trading and related offences, including links with triads and corruption, is another illustration of the collusive connections between private business and corrupt officials to the disadvantage of competitors and consumers (Dasgupta 2010). Lo (2010) provides an example of market manipulation by the triad Sun Yee On that was able to exploit close contact with government officials and dubious state-owned enterprises (or shell companies). Such crimes may result in the death sentence, which was, for instance, imposed on insider trader Yang Yanming, convicted in 2005 for defrauding US\$9.52 million and executed in 2009 (Fay 2009).

Economic Crime in China

As we show in Chapter 2, the paucity of reliable data on crime and the absence of victim surveys have made the study of the impact of crime in China speculative. This has not, however, prevented self-help action by many crime victims, who, thanks to social media and the Internet, can publicise crime incidents online and alert social networks about crime. For example, a 2005 news report from the *China Daily* (2005a, citing a *Shanghai Star* story) told about a 'netizen' who had published a 'thief map' on the Internet that showed more than 10 places 'haunted by thieves' in Shanghai's downtown areas and transport hubs. Drawing from the *Jiefang Daily* and the *Shanghai Morning Post*, the report pointed out that between 21 and 31 December, 2456 thefts had occurred in Shanghai, most of them in locations noted on the map, and that more than 60 thieves were caught in only one day in December 2004. Citing Yu Pinghua, a police officer

15 See Bank of China 2008, 'A study of the methods of transferring assets outside China by Chinese corruptors and monitoring methods for this problem', unavailable at the original URL but a translated source available in Lewis (2011). The authors thank Peter Reuter for bringing this document to our attention.

of the Public Transportation Sub-Bureau of the Shanghai PSB, the report noted that the PSB had caught 762 thieves on public transportation in a 15-day action, recovering more than CNY120 000 (US\$14 510) and 272 mobile phones (*China Daily* 2005a).

While the extent of crimes against business in China might not be well understood, such crimes do receive considerable media attention. For example, in July 2007, the *China Daily* reported an increase in waterside theft from Shanghai's ports, which the Shanghai Hongkou District Prosecutors' Office attributed to the widespread use of fake business licences that made possible the theft of cargo. About the same time, 52 people were charged with trading in fake government documents, mostly business and driving licences. The fakes often originated from Hunan and Henan Provinces (Cao and Zheng 2007). Large-scale banking fraud is also commonplace, and the Bank of China, along with other domestic banks, has often been required, after a series of high-profile scandals, to review procedures and strengthen controls to prevent fraud (as noted above). For example, the Beijing Huayuanda Real Estate Development Company allegedly colluded with staff at the Bank of China's Beijing branch to obtain CNY645 million (US\$77.7 million) in fraudulent mortgage loans for its Senhao Apartments, while an official of one of its sub-branches in Heilongjiang Province disappeared with CNY290 million (US\$34.9 million) (*China Daily* 2005b). Public Security Bureau sources quoted by *China Business Daily* estimated direct losses through Internet fraud arising from nearly 30 000 cases of Internet crime reported in 2005 by everyday domestic users at more than CNY100 million. Attacks on commercial activities and financial systems were, however, estimated to have cost about CNY1 billion. Most of the 72 836 incidents of malware identified in 2005 targeted commercial web sites or business activities.

The recurring problems of counterfeit medicine and tainted food have also been widely reported. The contaminated milk scandal of 2008 resulted in at least six deaths and thousands of hospitalised children (Associated Press 2010) and led angry parents to demand better government controls and policing. Further cases of contaminated milk (involving the addition of melamine and more recently nitrates) continued to surface in 2010 and 2011 (Stone 2011) despite the conviction and execution of a dairy farmer and a milk salesman over the melamine contamination and other crackdowns on breaches of product safety regulations. Some of these cases have led to mass protests and a decline in confidence in key government agencies, and naturally in the case of contaminated milk to a substantial loss of business for the Chinese dairy industry. Although there are many examples of counterfeit medicines, one from 2005 will suffice. It involved three counterfeited medicines of well-known household brands: the cold medicine Contac NT, the painkiller Fenbid and the antibiotic Cefalexin, on sale in suburban pharmacies in Beijing (*China Daily* 2005c). All three products

were taken off the shelves when the Beijing Municipal Drug Administration found out that the medicines looked like the authentic ones but did not contain the active ingredients. Trademark violations are common in China. In 2004, the administrative authorities for industry and commerce registered 40 171 trademark¹⁶ infringement and counterfeiting cases, of which 5401 were related to foreign trademarks. Only 96 of these cases were transferred to the police and courts.¹⁷

An element in the pervasive nature of white-collar crime and a relevant aspect of crimes against business has been the widespread use of fake credentials. It is also a serious problem in academia where plagiarism and data fraud are of significant concern—prompting *The Lancet* (2010), a leading medical journal, to call for improvements in China’s scientific integrity, especially given Premier Hu Jintao’s goal of making China a research superpower. The sheer boldness of some cases is staggering. Zhang Wuben, an untrained traditional Chinese medicine practitioner, amassed wealth by faking credentials from Beijing Medical University to sell treatments based on mung beans, and the former head of Microsoft China, Tang Jun, boosted his status with a fake doctorate from the California Institute of Technology (Jacobs 2010).

Measuring Crimes Against Business

The general aims and objectives of the research reported in this book are to enhance our understanding of the extent and nature of crimes against business and their impact on business costs and confidence in China. The China United Nations Crime against Business Survey (UNICBS) is the first large-scale survey of crimes against business undertaken in Chinese cities. The results of the survey show that it is possible to obtain useful data about crime risks, prevention practices and the degree of corruption/crime tolerance of business enterprises. Given the relatively limited crime data from official and other sources, the survey allows for the monitoring of crime risks, including corruption, in a country well advanced in its rapid transition from a command to a market-based economy. It also makes possible valid comparisons of the prevalence of crimes against business in Chinese cities with other cities similarly surveyed in both emerging economies and developed countries. Because the UNICBS (hereinafter the ICBS) uses a protocol that is similar to the United Nations International Crime Victims

16 In 1983, China’s annual trademark applications were less than 20 000, among which only 1687 were foreign applications. By 2004, the number of applications had reached 588 000, some 60 000 of which were foreign trademarks. By the end of June 2005, China’s accumulated number of registered trademarks had reached 2.37 million, among which 422 000 were foreign trademarks (see China Internet Information Centre News 2005).

17 See *ibid.*

Survey (UNICVS), comparisons between business and individual victimisation within and between jurisdictions are also feasible. This book, therefore, also contributes to comparative studies of crime and its causes.

The ICBS extends studies of criminal victimisation against individuals and households by including business activity or corporate victims. The ICBS focuses on crimes *against* business—that is, when a commercial entity is the victim of crime. Crime against business might be perpetrated by individuals (for example, employees, customers), other businesses (for example, competitors, suppliers), officials (for example, in the case of bribery) or criminal groups (for example, extortion). The ICBS, therefore, excludes crimes committed *by* businesses or corporations against customers (for example, faulty products), employees (for example, work safety violations), the environment (for example, pollution), the public at large (for example, accidents caused by negligence such as the Bhopal disaster in 1984) and other businesses (for example, price collusion). In the ICBS, businesses are the unit of victimisation analysis, not the individuals who operate and work in these businesses, although it is clear that crimes against business can have severe effects on individuals when, for example, losses to fraud or other crimes force a business to close or to lay-off workers, or when staff members are injured or killed.

Household and personal crime victim surveys have been carried out regularly in Hong Kong since the late 1970s, but have rarely been used in the mainland. In Hong Kong, the Government Census and Statistics Department has so far conducted seven sweeps of the Crime Victimization Survey (CVS), in 1979, 1982, 1987, 1990, 1995, 1999 and 2006. For the first time, in 2006, the University of Hong Kong conducted the UNICVS (Broadhurst et al. 2010). While the CVS and UNICVS have measured only crime against individuals, Hong Kong businesses have since 2001 participated in the PriceWaterhouseCoopers' biennial Global Economic Crime Survey, which estimates the extent of global economic crime against business. In contrast, the first rigorous study of crime victimisation in modern mainland China took place in 1994 with the Beijing survey, conducted as part of the UNICVS (Zhu et al. 1995).¹⁸ Ten years later, in 2004, the Tianjin survey built upon and extended the earlier ICVS (Zhuo et al. 2008). In 2005, the Taiwan National Police Agency undertook the Taiwan Areas Criminal Victimization Survey, which also focused on personal and household crime (Sheu et al. 2005).¹⁹ No substantive attempt to measure the prevalence of crimes against mainland businesses had been made prior to the UNICBS reported in this book. The survey protocol assumes that businesses will be the targets of both

18 A repeat survey was conducted in Beijing in 1996; unfortunately, the data and findings of that survey have never been released.

19 A unique feature of the Taiwan survey was that, in addition to the randomised survey, it also interviewed 2025 victims of crime who had reported a burglary, robbery, vehicle theft or fraud to the police in 2004. An earlier study of a smaller sample of Taipei respondents was reported by Mon (2003).

common crime²⁰ and crimes that manipulate business practices, and accounting and payment procedures. Thus, business crime surveys include so-called ‘white-collar’ crimes such as fraud—often neglected or poorly captured by household surveys—and also help plan the cost and distribution of government and private-sector crime-prevention initiatives (Doerner and Lab 1998; Eigen 2002; Kaufman et al. 2000; van Dijk 1999).

A basic requirement of a prevention-oriented approach to crimes against business is the availability of extensive and reliable data and, as noted, this is generally not the case for China or indeed for many countries in the developed and developing world. The value of crime victim surveys lies in measuring the ‘hidden’ or ‘dark’ figure of unreported crime.²¹ Van Dijk, a leading researcher on crime victimisation, argues that crime victim surveys constitute ‘a better indicator of the level of crime than the numbers of crimes reported to, and recorded by, the police’ (2000:97). The reporting behaviour of victims directly affects the size of the hidden crime figure and, in turn, the official crime rate. Thus, victim surveys can contribute to policy assessment by overcoming the limitations of official crime statistics (Carach and Makkai 2002; van Kesteren et al. 2000). Official police data are usually inadequate in identifying incidents involving repeated victimisation; yet, we know that ‘some people and places are targeted more frequently than others, such that a small proportion of victims experience a large proportion of all crimes’ (Taylor and Mayhew 2002:4). The limitations of official data might lead to inefficient expenditure on crime control and prevention and misinformation about the risks of crime amongst the general public, adversely affecting criminal justice policies. For example, a 1999 Australian survey showed that police statistics based on recorded crime misled policy about the prevalence of burglary and robbery compared with other types of crime in the business community (Taylor 2002). In the case of business, it might lead entrepreneurs to rely on inaccurate estimates about the risks and cost of crime when they consider investing in a particular country or industry.

The UNICVS has highlighted that residential locality and town size, self-exposure to criminal opportunities, target attractiveness and the strength of guardianship are significant factors in the risk of individual victimisation (van Kesteren et al. 2000) and it is likely that they also play a role in crimes against business. The ICVS also showed that more than 40 per cent of crime victims were victimised more than once in the course of a year and one-third were victims of multiple incidents (Wittebrood and Nieuwbeerta 2000). British experience

20 Street or common crime refers to offences such as burglary, car theft, threats, common assault, robbery, sexual assault, criminal damage and other personal theft that directly affect individuals and households.

21 For example, the 2009 US National Crime Victimization Survey estimated that only 49 per cent of the 4.3 million violent crimes were reported to the police (Truman and Rand 2010) and the Hong Kong UNICVS showed that nearly 70 per cent of personal and household victims did not report their victimisation to the police (Broadhurst et al. 2010).

indicates that businesses have higher risks of crime victimisation than both individuals and households, and businesses located in city/town centres tend to be more at risk than those in smaller towns (Hopkins 2002). Chapter 6 explores these risk factors and attempts to identify businesses at greater risk of criminal victimisation, including those vulnerable to corruption.

The 1999 sweep of the UNICBS in Central Eastern Europe challenged conventional views about the reasons businesses do not report their victimisation to the police. Few victims cited negative publicity or company policies as reasons; however, the rates of refusal to answer a question and 'don't know' responses were elevated for some offences—notably, employee fraud (Alvazzi del Frate 2004). Even in developed countries businesses are often unwilling to report crime, in part because of perceived high transaction costs, especially if the losses are not deemed large enough to warrant the involvement of police and there is a risk of reputation damage. A 2002 KPMG survey of 351 large Australian businesses found that 55 per cent had experienced a fraud (average loss AU\$1.4 million), but only 64 per cent of the victimised businesses alerted the police or regulatory agencies (KPMG Forensic 2003).²² Through questions that explore the willingness of business to report crime and their reasons for calling the police or not, we seek to identify factors that inhibit or encourage the reporting of crime to police and test previous findings that businesses might be more prone to certain crimes than households but less willing to report crime than households. Although it is often assumed that reporting crime is both a public duty and an effective response to crime, Chapter 7 discusses how in some contexts or in regard to certain crimes it might be an unwelcome and onerous duty.

Our study in part falls within the field of 'victimology', defined by van Dijk (1997:3) as 'the scientific study of the extent, nature and causes of criminal victimisation, its consequences for the persons involved and the reactions thereto by society, in particular, the police and the criminal justice system as well as voluntary workers and professional helpers'. It also, however, has cross-disciplinary relevance to economics, management, finance and law (Shahid 1991). It provides a tool for improved risk assessment of investment strategies and enables detailed comparisons of crime as a business risk relative to market development. The negative and distorting role of crime, corruption and insecurity on business performance is a priority focus of national, provincial and municipal crime-prevention and enforcement strategies. The ICBS permits the estimation of business risks and identification of vulnerable sectors to assist investment, trade and management decisions; facilitates the policing of

22 Smith and Urbas (2002) in another Australian survey of fraud against business found that that 5–10 per cent of online consumer transactions were fraudulent but few incidents of cyber crime were reported to police.

the business community not only by the public police but also by regulators and professional bodies; and helps prevent crime and corruption in one of the fastest-growing economies of the world.

Our research addresses some broader questions, particularly the extent to which the ‘rule of law’ creates an advantageous context for business. The survey estimates the prevalence and severity of crimes against business in Chinese cities of varying levels of economic and legal development, and differential risks of common street crime. Our underlying assumption is that the prevalence and severity of crimes against business will co-vary with regional levels of legal and economic development. We hypothesise that the presence of strong legal institutions will reduce the likelihood of crime and increase confidence in policing and government. The four cities included in the survey (Hong Kong, Shanghai, Shenzhen and Xi’an) were chosen because to some degree they might be representative of the relative differences in economic and legal development found between Chinese cities. For example, in comparison with Hong Kong, which is a free-trade port long wedded to capitalist market economics, an inland city such as Xi’an has been less open to market reforms and its industrial and commercial sectors remain dominated by state-owned enterprises.²³ Shanghai, on the other hand, has been restored to its traditional role as the commercial centre of China and has overtaken Hong Kong as the major port for Chinese trade. Shanghai might not have yet fully developed its legal institutions or a thoroughly independent system of rule of law usually considered essential for a modern market economy, but it has been the most progressive city in reforming commercial law (Mako 2006). Shenzhen exemplifies the ‘open-door’ policy advocated so successfully by Deng Xiaoping. In 1979, the ‘overnight city’—as Shenzhen is now known—was the first of many ‘special economic zones’ (SEZs) allowed to experiment with ‘market socialism’, and it has been a revealing laboratory for the governance of the reform process and other problems caused by rapid change. While official data on the prevalence of crime, especially against business, in Chinese cities are scarce, there is sufficient information to conclude that Hong Kong has a relatively low level of ‘street crime’ at least compared with Shenzhen (see Chapter 2), and a more developed capitalist economy and legal institutions than other Chinese cities. Hong Kong also ranks much higher on World Bank governance indicators such as rule of law, voice and accountability, political stability and violence, government effectiveness, regulatory quality, and corruption control (Kaufman et al. 2009; see Appendix A). We acknowledge, however, that limited resources also influenced the selection of the four cities (the next chapter provides further background details about the cities included in the survey).

23 The absence of a direct question as to whether the business was state or privately owned was a significant omission in respect to mainland cities. The aim was to reduce the survey burden and raise the response rate. Moreover, such a question was not part of the original ICBS protocol.

Our research also sought to: 1) extend the scope of crimes measured by the UN business crime survey by including new or emergent crimes such as cyber crime, credit-card fraud and intellectual property (IP) crimes; 2) estimate the risk of organised crime to legitimate business through bribery, corruption and 'protection/extortion' in anticompetitive business practices and other distortions in market development; 3) assess the effectiveness of countermeasures and the potential of crime-prevention initiatives; and 4) estimate the direct and indirect costs of crime and crime prevention.

We aim to provide a benchmark for subsequent surveys and encourage longitudinal research on changes in business crime risks, which could be undertaken via periodic surveillance of crimes against business in selected Chinese cities. Unlike the UNICVS, the ICBS has not been extensively applied nor have the repeated sweeps—which could make assessments of change possible—been conducted. Further ICBSs are planned in Eastern European countries under the auspices of the UN Office on Drugs and Crime (UNODC) and follow on from large-scale surveys of the prevalence of corruption in the western Balkans.²⁴ A low-cost reliable instrument can routinely monitor crime against business by type of business activity and scale of enterprise (that is, small, medium and large business operations in various sectors: manufacturing, transport, communications, retailing, service and construction). Such monitoring could prove essential in emerging and transitional economies where police and other official sources of data are incomplete and often unavailable. At present, a number of business consultants (for example, PriceWaterhouseCoopers, KPMG and Kroll) undertake surveys of fraud and other business-related crimes, sometimes drawing on their client base for participants. They often suffer, however, from limitations of scope and many small business operations are not included. These industry-sponsored surveys have included Chinese businesses (see Chapter 2) but, as noted, scope and samples have been relatively small in spite of their global and regional focus.²⁵ Private industry-sponsored surveys of business crime risks are useful tools (albeit often used as marketing material) that attempt to collect information that is absent from official data sources, but they might lack the crucial independence that is essential for credible influence on policy. While victim surveys are not immune to sampling error and under-reporting (in the UNICVS, for example, assaults between intimates), they have had a substantial impact on policy development, notably in improving services to victims. Surveys of crimes against business have generally suffered from low response rates and reluctance to disclose information about income, profits and losses. We have also encountered these problems, which we discuss in Chapter 9 along with other limitations of the China ICBS.

24 Personal communication with Enrico Bisogna, Statistics and Survey Section, UNODC, 19 August 2011.

25 In some cases, the survey methodology is not detailed and response rates, interview methods and the exact number of respondents are not disclosed (for example, see Economist Intelligence Unit 2010).

Structure of the Book

This book has nine chapters that report in detail the findings from the large-scale survey of the prevalence of crimes against business in four Chinese cities. Chapter 1 briefly reviews research that examined the victimisation of business and outlines the development of the ICBS. Chapter 2 provides further background on the overall crime situation in China and the response of crime-control institutions in the context of China's transformation from a socialist to a market socialist economy. This chapter also summarises the general pattern of crime in China since the 1970s. Chapter 3 outlines the methodology of the survey, the structure of the questionnaire and the lessons learnt from the initial pilot survey conducted in Hong Kong in 2003. This chapter concludes with a description of the characteristics of the sample, an assessment of the response rate and the limitations of the survey protocol and its implementation. Prevalence and incidence rates of victimisation by common crimes against business are presented in Chapter 4, where we compare our results with other survey findings on crimes against business and the Hong Kong UNICVS. This is followed by an analysis of the correlates of victimisation by common crimes. We also highlight variation in the rates of victimisation on four criteria—by city, business sector, business size and location—and estimate the cost of these crimes. Chapter 5 examines victimisation by 'non-conventional' crimes such as fraud (by insiders and outsiders), Internet fraud, bribery, extortion, intellectual property (IP) infringements, and computer-related crime. We disaggregate the prevalence of non-conventional crimes along the same criteria selected for common crimes, estimate the cost of fraud, and compare our results with the findings of other business victimisation surveys of non-conventional crimes. In Chapter 6, we present our statistical analysis of the predictors of business victimisation and show how sector and size of business are associated with certain crime risks. In Chapter 7, we analyse businesses' responses to their crime victimisation, their reasons for reporting or not to police, and their level of satisfaction with the ways in which police responded to their complaint. This chapter also examines all respondents' attitudes about the effectiveness of the police in their area, and their engagement in collective crime prevention. Chapter 8 analyses attitudes to crime and corruption, particularly as an obstacle to doing business, but in the context of attitudes to other factors that might also inhibit business growth. We investigate respondents' perceptions of crime trends and compare Hong Kong and mainland cities' attitudes to various obstacles to business. Finally, Chapter 9 outlines our conclusions and recommendations for future research in light of the findings from this first attempt to measure the prevalence of crimes against business in China.