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Eclipsing the Sun:

Investigating the Shadow of Post-Mao Reforms in the PRC

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Abstract:

Through the implementation of economic reforms beginning in the late 1970s, China has been transformed from a largely undeveloped, command-style economy, into a burgeoning world economic power. While the positive implications of China’s transition have been well studied, less attention has been paid to the negative externalities of this colossal economic and societal shift. In particular, this study examines both the causes and potential consequences of the rise of organized and systematized criminality and corruption, as a lens with which to help shed light on the trajectory and sustainability of China’s economic and political development.

Key Words: China, Institutional Change, Private-Violence, Corruption, Patron-Clientalism

Introduction: The Puzzle

Since 1978 the People’s Republic of China (PRC) (from hereon, China) has undergone one of the largest and most successful transformations in recent history. Post-Mao reforms have transformed a once stagnating economy to one which currently produces some of the highest GDP growth rates in the world. Such growth and transformation has not only improved the overall economic well being of China and a growing number of its citizens, but has also fundamentally changed the structure of Chinese society. Additionally, as market-oriented reforms have made the Chinese economy less state-centered and more decentralized, economic development has turned Chinese society from one that was once
jealously controlled by the state, into one that is incrementally becoming more autonomous, pluralistic, and complex (Pei 2006, 1-2).

China's remarkable economic growth, increasing socioeconomic liberalization and divergence from the once staunchly adhered to Communist model have prompted a number of scholars to suggest that there is an increased probability of a shift towards a more representative, even democratic, form of governance—assuming China continues along its current trajectory (see for example, Inglehart and Welzel 2005). However, as China has moved along the path towards developed modernity, crime rates and corruption have surged to a point which may threaten further development—both economic and political. Moreover, China's increasing crime and corruption has seemingly created an environment, which has led to the emergence (or rather, reemergence) and salience of China's criminal underworld with an increasing and deepening political-criminal nexus.

To be sure, crime and other social disruptions in the wake of modernization shifts are not unique to the Chinese case. Indeed, cases stemming from both the western and eastern worlds show that both crime and the state were more violent at the initial periods of modernization due to various factors such as a breakdown of traditional social controls. While the initial phases were often characterized by social, political and economic instability and crime, through the continued evolution of growth and expanded institutional capacity, instances of crime and corruption, whether state or non-state induced, substantially subsided once new levels of cooperative equilibriums were achieved (Bakken 2005, 388; Chen 2005, 91). If such negative phenomena in the Chinese context then are simply transitory, it would seem to fit well withinTraditionally accepted wisdom. However, preliminary evidence suggests that China's criminal underworld is becoming ever more institutionalized into the social, political and economic tapestry—a pattern of which social science theorists in general have failed to adequately account for—in part because social science theory in general has been near-monopolized by western centric-cases.

Although crime and corruption have been well studied in the general social science literature, investigations on the infiltration of organized crime into the fabric of economic, political and social environments has lagged far behind. This development warrants scholarly attention as such phenomena can pose wide-ranging negative
implications for future development and growth. Such groups engage in fraud, extortion, human and drug trafficking. They extract profits through the use and/or threat of violence, and can pose burdensome financial costs and physical risks. It threatens economic and political competition, legitimacy, the rule of law (or the creation thereof) and leads to questions concerning the state’s monopolistic control over the means and use of violence in the domestic sphere.

This project seeks to better understand the implications of this negative externality of China’s development process. Specifically, the goal of this paper is to set the groundwork for a more exhaustive research agenda. In particular, the end goal of this project will be to shed light on the causes and consequences of the rise of organized crime and influence of such groups in the post-Mao era as an illustrative case with which to better understand, and ultimately predict, China’s development trajectory. If the phenomenon is a long-term trend rather than being simply ephemeral, it may hint at serious structural inadequacies of the Chinese state.

In addressing these questions, this research agenda setting article will begin with a discussion and description of the situation of China’s criminal underworld as it has evolved principally from 1979 to the present period. Subsequently, a theoretical overview will be covered in order to unite insights provided by existing schools of thought and methodologies. Following the specific case study and general literature review, this paper will conclude with the proposed path for the next phase on this project.

**Background: The Reemergence of the Chinese Criminal Underworld**

While this study is predominately focused on investigating the emergence and potential rising influence of China’s criminal underworld in the post-Mao era, such groups are ultimately part of a long tradition of *secret societies* in China which evidence suggests date back as far as 2,000 years with the advent of private property rights and the rise of the state (Billingsley 1988, 2).

The term “secret society” itself is somewhat ambiguous in that it has traditionally been used to refer to groups such as religious societies/cults, guilds, bandits or otherwise illegal associations (Ownby 1993; Xia 2006). Despite the ambiguity however scholars of
the subject have often separated criminal organizations conceptually from more politically or religiously oriented groups by referring to them as “black gangs” or “black societies” (Chen 2005, 87). And, according to Xia (2006) while secret societies in general expanded greatly during the Tang and Song Dynasties (7th and 13th centuries) organizations which specialized in crime, violence and or illicit trade predominately came into being towards the end of the Ming Dynasty (1368-1644) and continued to prosper throughout the Qing Dynasty period (1645-1911).

Although the origins of such criminal groups date back quite far into past, the height of China’s criminal underworld is generally agreed upon to have peaked during the tumultuous Republican Era (1911-1949)—an era characterized by corruption, economic and social instability, near constant iterations of wars, struggles for power and declining or otherwise lack of state control/capacity (Billingsley 1988, 16). In short, it was an era with far more state-seekers than state actors.

Towards the end of the era in the late 1940s Xia (2006) notes that estimates made by the Kuomintang government (KMT) put membership in secret societies as a whole at 80 million (157). While the various competing groups throughout the period utilized the criminal underworld, evidence shows that such groups enjoyed the greatest influence upon the KMT government in which the criminal-political nexus was most tightly formed (see: Chang 85; Booth; 2001 Xia 2006; Chen 2005, and; Rowe 1982).

In 1949 with the collapse of KMT rule and the consolidation of power and clear comparative advantage of violence (vis-à-vis would-be competitors) under the Communists, the fortunes of China’s criminal underworld precipitously declined. As noted by Lieberthal (1973), many criminal groups initially fled out of China (along with the KMT) to Taiwan, while others eventually collapsed in the wake of anti-crime campaigns during the 1950s (246-266). While various authors such as Chung, Lai and Xia (2006) and Booth (2000) argue and provide evidence to the fact that the communists were never able to completely eradicate both serious crime and the criminal underworld (as we should expect), it is clear that the influence of such activities and organizations was dramatically curtailed during the repressive and totalitarian Mao-years.
In the post-Mao era as political, economic and social constraints have gradually been loosened through market reform China has increasingly been faced with dramatic increases in crime and corruption. For example, Sun (2005) shows that there has been a substantial increase in corruption related cases (including embezzlement, bribery, profiteering, and privilege seeking) as a percentage of all economic legal cases, with such rent-seeking activity increasing from roughly 1% in the late 1970s to over 83.9% in 1989 (42). With respect to crime in general, between 1974 to 2000 officially reported number of crimes skyrocketed from roughly a half a million per annum to over four million (Chung & Xia 2006, 17-18). Furthermore, within roughly the same time period the growing trend of ‘major, special and series crimes’ (zhongteda fazui), the term utilized to categorize violent and or large-scale organized crime, has risen from 6.5% to over 30% as a total percentage of crime (Chen 2005, 93).  

Whilst crime levels are still relatively low compared to international standards, the increasing rate of organized crime activity is reason for serious concern. For instance, according to statistics from the Ministry of Public Security (MPS) and secondary sources on serious crimes in 2001 compiled by Zhang (2001), organized criminal syndicates were involved in an estimated 22% of serious robberies and abduction cases, 16% of serious thefts, 9% of the rapes, and 6% of the homicide and bombing cases in China (53-64). Furthermore, while there are no official statistics published regarding drug related crimes and smuggling of persons, analysis of various sources and unofficial statistics suggests that a higher proportion of such crime are increasingly being committed by organized criminal groups (ibid, 53-64).

Additional statistics illustrate that the number of gang-related crime has been on the rise. In 1990 for example, Sichuan Province reported that in certain areas criminal groups accounted for upwards of 50% of the solved criminal cases. On a nationwide scale, according to official statistics in 1995 the crimes by groups accounted for 26% of all those solved, and the captured group members accounted for 37% of all those convicted of crimes. Such percentages moreover become higher in coastal provinces where criminal

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1 While we should be suspect as to the actual accuracy of official and or unofficial statistics in general do to obvious reasons such as rationales to either understate or overstate, it is this author’s assumption that the patterns of rising crime and corruption and involvement of organized crime groups is evident regardless of the exact percentage.
groups committed 70-80% of ‘major, special and serious crimes’ (Xia 2006, 158-160). Furthermore, according to Cai (1996) in 1990 China was home to roughly 500 criminal gangs. By 1992, such groups increased to 1,800 and by 1995 had dramatically increased to close to 11,000 with membership estimated at close to a million people and doubling in size per annum (1).

Based on the aforementioned scholarship we can see that organized criminal groups are quite dispersed and can be found in many concentrated areas throughout China. Bringing further insight, Xhang’s 2001 study, through the use of news media data provides us with a more graphical illustration of the relative concentrations of such groups throughout the PRC:

Figure 1

![General Distribution of Black Society Organizations in China](image)

Additionally, organized crime rates are higher in the northeast, southwest, and eastern coastal areas such as Shen Yang, Chang Chun and Harbin, three cities in the northeast, Wuhan, a large city in central China, and Nanchang, a medium sized city in Eastern China. Furthermore, the provinces of Guangxi and Yunnan (southwest China), Hainan and Guangdon (southern China), Heilongjiang and Liaoning (northeast China), Heibei and Shandong, Anhui, Jiangxi and Zhejiang (eastern China), have a higher proportion of criminal organizations relative to other provinces. Moreover, while cities such as Beijing and Shanghai among others where the economy is fairly well developed and have comparatively lower crime rates and less organized crime activity, various districts in those metropolises such as suburban communities and foreign residents’ compounds with higher proportions of residents made up of people from Taiwan, Hong Kong, Macao and overseas are also prone to the proliferation of organized criminal groups (Zhang 2001, 65-68).

Furthermore, there seems to be a fairly general pattern in terms of the distribution of criminal activity of organized crime groups: (1) major or serious crimes are more prevalent in the north and west of China relative to the south and east; (2) the types of crime committed in each region tend to remain fairly constant: homicide is most prevalent in the north, drug trafficking in the south, robbery in the west and theft in the east, and; (3) serious organized crime activity is most prevalent in small and medium sized cities where the economy is the least developed. And, road robbery is often seen in remote areas whereas highly organized criminal enterprises are often established in wealthy areas (ibid, 68).

Zhang’s main explanation is that the distribution of organized crime activity is directly related to urban demographic structure, local economic development, natural geographical conditions and historical and cultural traditions. For example, in newly developed cities such as Shenzhen and Zhuahai (located in southern China) the populations are predominately comprised of recent migrants with high unemployment levels or otherwise unstable socioeconomic situations. Zhang posits that in order to survive, they are likely to band together and form groups in order to carry out licit or illicit activity—often culminating into organized criminal groups. In large cities like Chong Qing, Wuhan and Nanchang which have a historical legacy of secret societies and which have less of a
population comprised of migrants but low levels of economic development and living standards due in part to their disadvantageous geographic locations in the mountains or hinterlands have seen high levels of people forming criminal organizations (ibid, 68).

Adding to the debate, Cai (1996) contributes to our understanding of the different variations of organized criminal groups through his categorization of contemporary syndicates based on the types of activities and organizational structures they take on. The first types are predominately economically oriented. Cai illustrates that such groups are concentrated in cities, especially so in economically developed coastal areas close to important trade routes. The second type fall into what Cai refers to as “feudal hegemonic.” In those organizations, members (often local cadres) carry out criminal initiatives to further their own authority and power-based relationships. A third type is comprised of predominately urban youth gangs. A fourth type are those with political-oriented goals. For example, Shanghai’s Chinese Socialist Radical Party, Hunan’s Plum Flower Party, and Guangxi’s Black Dragon Gang which have all explicitly committed their aims to overthrow the Chinese Communist Party. Lastly, the final category of group is made up of international criminal syndicates, which engage in cross-border smuggling of drugs or people, counterfeiting and illegal sales of automobiles, protection rackets and the use of organized violence (1).

With respect to the structure of organized criminal groups in China, the majority of scholars and Chinese lawmakers alike have predominately viewed the viewed the hierarchical structure as one of the main defining features of China’s criminal underworld. For example, the MPS characterizes the internal structure of organized crime groups as the following:

Horizontally, a set of concentric circles is identifiable: the leaders or chieftains occupy the core of the criminal groups with mafia characteristics. Around the leadership are core members who are responsible for communication and coordination between the inner circle and the outer layer. The ordinary members are in the outer layer. Vertically, a power structure is formed as a pyramid: the leaders or chieftains sit atop the pyramid with enormous authority, and the subordinate members must worship them. In the
middle are the core activists, who actively organize and participate in crimes, and also build their own authority and status on the basis of their superior capacity and rich experiences of committing crime. At the bottom are the ordinary participants (Nan Ying 2003, 285).²

Xia (2008) argues that such a typology fails to adequately describe the many variations to which organized criminal groups take—which he further argues is predominately dependent upon the types of activities they are engaged in. In addition to traditionally hierarchically based organizations, contemporary organizational formations often assume the form of networks, existing of at times multiple centers, nodes—all of which complicate both anti-measures against such groups in addition to general scholarly research.

To be clear, Chinese authorities (at various levels of government) have not been passive to the various deteriorations of public security.³ According to Xia (2006), in 1979 as a response to increased lawlessness and general deterioration of public order central leaders convened in Beijing and in the words of Xia “kicked off a campaign for law and order in large and medium sized cities nationwide” (158). In 1980 based upon statistics across 64 cities, 3,400 gangs were reportedly destroyed. This initial campaign was followed up by various anti-crime measures targeted at limiting the extent of organized criminal activity and other serious crimes yet such measures did not fundamentally reduce the rising trend (Tanner 1985, 85; Xia 2006, 158).

In 1983 China launched its first national “Strike-Hard” (yanda) anti-crime campaign which was aimed predominately at China’s criminal underworld.” ⁴ The

² Reprinted from Ming Xia, 2008, pp. 7
³ Tanner (1999) explains that that during the Maoist era, the organs of criminal justice had been primarily concerned with political offences. In the reform era however, faced with new challenges concern gravitated towards addressing the increasing trend of economic and violent crime committed by a range offenders—much of which was carried out by Communist Party Cadres themselves (80-81).
⁴ The specific target of the campaign was quite wide ranging and were specifically identified as: 1) hooligan gang elements; 2) serial offenders; 3) murderers, arsonists, bombers, poisoners, drug traffickers, rapists, robbers and persons guilty of serious theft; 4) traffickers of women and children, criminals who force, lure, or shelter women in prostitution or criminals who produce, or sell publications, pictures or recordings of reactionary or pornographic content; 5) members of reactionary secret societies currently engaged in wrecking activities; 6) persons escaped from labor reform camps, persons released from labor camps or labor re-education who commit new crimes and other persons under warrant of arrest for criminal activities; 7) active counter-revolutionary elements who write counter-revolutionary contact or anonymous letters, and other remnants of Lin Biao and the Gang of Four currently engaged in wrecking activities (Tanner 1985, 90)
campaign, which lasted a total of 3 years, accounted for 1.772 million arrests and over 300,000 criminal groups (comprised of an estimated one million members) identified and destroyed. However, despite the massive and at time ruthless campaign, statistics show that the impact was largely effective only in the first year. The “strike-hard” campaign and similar anti-organized crime measures have been constantly revised, renewed and enforced through the present period yet the overall crime rate and criminal underworld activity has maintained a rising trend despite such campaigns (Xia 2006; Bakken 2000).

**Deepening Criminal-Political Nexus:**

Given that organized crime activity has continually increased in the face of central government-led crackdowns leads to the obvious question of how in fact they have been able to prosper in such a seemingly unfavorable environment. One potential answer has to do with the development and deepening of the criminal-political nexus—especially so (though not exclusively) at the local government level. The disconnect between national level CCP leaders’ goals and those of local government officials can be thought of as somewhat intuitive given local governments’ strains as a result of constant inefficient funding and rent-seeking activities—leaving them many times vulnerable to corruption and potential infiltration of criminal elements.

He Qinglian (2004) for instance argues that one of the major reasons for rise of organized criminal groups has been due to their links with local government officials with whom they collude with in exchange for favors. He writes:

“In the West, the basis for most crime syndicate’s power and influence is their contact with police departments and judiciary ministries. But, the antennae of China’s criminal gangs are even longer, with cadres serving as a reliable source of power and influence for the gangs and for a number of crime bosses also working as leading officials, donning what we call the “red cap”” (258).

He Qinglian goes on to write:

“They [organized criminal group members] are succeeding in getting chosen as government “representatives,” and taking leading roles in local congresses. As such, corrupt officials are transforming organs of public power into channels for
Triad activity. The overall picture is of a merging or blurring of the lines between the police and criminal gangs, who rule society between them” (259).

In line with the above, according to Pei (2006), prior to the 1980s collusion between Chinese officials and criminal groups was relatively uncommon. In the 1990s however, the breakdown of the institutional mechanisms that control state agents and enforce political accountability has facilitated collusion in corrupt activities among government officials and China’s criminal underworld. In the most extreme forms Pei argues that official collusion has led to the development of local mafia states for which he defines as “jurisdictions in which criminal elements have formed a close alliance with officials in key government positions” (159-160). While Pei acknowledges that the actual extent to which the Chinese state has been penetrated by such criminal organizations is unknown he does provide anecdotal evidence based on fifty high profile corruption cases across 17 provinces that suggests it has become a growing problem and concern for the state. For example, in Shenyang in the 1990s Pei notes that practically all of the key local officials, including seventeen agencies took bribes from the city’s organized crime boss in return for protecting his gang’s activities. In Fuzhou, criminal groups were said to have colluded with ninety-one key local officials including the deputy party secretary and chief of police, in activities such as drug trafficking, prostitution, and gambling, among other activities (161).

Official concern over increased organized crime activity and government collusion is also on the rise. For example, in an interview the head of the office in charge of fighting organized crime at the MPS in July 2003 stated:

“In some areas, local government organizations were weak and in disarray, and society was out of control. This provided opportunities for evil forces to breed and spread in rural townships. The local governments in these townships were in a state of collapse. Some of them degenerated to such an extent that they had allowed evil forces to run amok within their jurisdictions, control the governments, illegally interfere in local administrative affairs, and take over law and order. These jurisdictions became lawless fortresses and uncontrollable
villages that openly defied the government and law enforcement agencies”

Based on a similar study to that of Pei, Xia (2004) argues that the infiltration of organized criminal groups into the communist regime predominately takes on four major forms of collusion: (1) organized criminal groups seeking protection from state agents through bribes and other methods; (2) state officials patronizing criminal groups for political or material gain; (3) criminal groups “bleach” themselves through entering the mainstream, and; (4) criminal groups obtain hold of the entire government and rule society as a “gangland” (12). Furthermore, similar to Zhang’s 2001 findings, Xia explains that based on 99 official cases of organized crime-government collusion publicized by the Chinese government, the distribution of such cases is fairly evenly distributed throughout the 26 provinces (14).

In sum, we can extrapolate through the use of descriptive secondary sources that there has in fact been a resurgence of organized crime and an increasingly strengthened political-criminal nexus in China. Moreover, this trend seems to have been triggered by or at least intrinsically linked to the fundamental transformation of China’s economic and political environment in the wake of post-Mao reforms. The following section will cover a range of theoretical scholarship based on general literature of organized crime in order to help develop a well-informed framework for this study.

Theoretical Framework: The Concept of Organized Syndicates:

What we can see from the discussion above is that theory in general fails to adequately account for the institutional resilience of organized syndicates which often become embedded within the fabric of society throughout the process of a state’s move towards modernity. Before we begin addressing various hypotheses as to why and how that occurs however, we first have to more definitively conceptualize the phenomenon.

Given that this paper seeks to better understand the phenomenon as it exists in the Chinese context, one place to obviously start with would be the definition which is codified in China’s Supreme Court interpretation which is as follows: (1) relatively

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5 Reprinted from: Pei 2006, 161
coherent organizational structure: numerous members, a clear organizer and leader, stable core members, and relatively strict organizational rules; (2) sizable economic resources gained through illegal economic activities or other illicit means; (3) seeking political protection from state officials through bribery, threat, and other methods; (4) having monopoly control over a certain region or professional field and using violence, terror, and harassment to damage the order of economic and social life (Law Yearbook of China 2002). Although the official definition is certainly useful for gauging the scope of China’s criminal underworld (especially since official government statistics on organized crime will in part be used for this study), such a strict conceptualization arguably leaves little room for exploring the full scope of the phenomenon.

While not specifically concerned with Chinese organized crime, general criminological (and/or related) theory may go far in helping to elucidate the phenomenon and as such, better orient this study. To begin with, conventional wisdom conceptualizes “organized crime” as consisting of groups who collectively, and on a long-term basis, work together to commit crimes for social, economic, or political gain (see Levi 1998). However, as noted by Schelling (1984), we must be careful to differentiate between crime that is merely organized, and the actual phenomenon which we are investigating (180). For instance most crimes to some extent have a certain degree of organization, such as in the case of bank robberies or other crime engaged in by professional criminals, but perhaps those crimes would fit better into our modern lexicon as ‘crimes which are organized,’ as opposed to ‘organized crime.’

In addition to the point above, organized crime is frequently identifiable by a number of distinguishing, and some would argue, essential characteristics including violence, corruption, continuity, and variety in the types of crimes committed (see Maltz 1976). As explained by Levi (1998) however, we need to be cautious with such outcome contingent conceptualizations, as smart criminals who are able to avoid the use of violence and/or other characteristics would thus fall out of such a category (335).

Taking many of those issues into consideration, Finchenaucer and Voronin (2001) utilize the following definition:
“Organized crime is crime committed by criminal organizations whose existence has continuity over time and across crimes, and that use systematic violence and corruption to facilitate their criminal activities. These criminal organizations have varying capacities to inflict economic, physical, psychological, and societal harm. The greater their capacity to harm, the greater the danger they pose to society.

While Finchenauer and Voronin’s definition is arguably the most precise, we must also put forth that it is not only the use of violence, but also the threat thereof.⁶

Furthermore, within the notion of organized crime as presented, there too exists a substantial amount of variation as to type, operational methods, and size of such groups. There are groups which predominately operate in the provision of goods and services within black-markets (often referred to as the “enterprise-model of organized crime”), those that predominately operate in the business of extortion and racketeering (often referred to as “mafia-type,” or “predatory-organized crime” groups), and those that engage in both categories of activities simultaneously to varying degrees. While some studies have gone as far as arguing that criminal syndicates can be best characterized by either the “enterprise-model,” or the “mafia-type,” paradigm, such positions often do not allow for variation across and or within such groups. As this study in part seeks to account for such variation, an exploration into both paradigms and the respective implications will be covered. Subsequently, an alternative approach referred to as the “patron-client” perspective will be discussed.

**Enterprise-Model of Organized Crime:**

Landesco (1929), coming out of the tradition known as the Chicago/Human Ecology School of thought (because it applied the principles of plant and human or animal ecology to the task of explaining social deviance)⁷ was the first to equate organized crime

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⁶ For reasons to be discussed in a later section, this paper will further add to this definition by using continuity of patron-client relationships over time rather than continuity of criminal organizations as the unit of analysis.

⁷ As explained by Barak (1998): “The social ecologists, for the most part, argued that crime was the result of social disorganization that characterized the inner-city areas. They argued further that social disorganization was caused by rapid social changes whereby dominant legitimate values and norms compete with each other as well as with illegitimate norms and values. In turn, various subcultures engage
syndicates with that of legal enterprises. Landesco saw the formation of organized crime
groups as a retinue of mercenaries bound together by both the need for protection, and an
expectation for profits—ultimately culminating into a form of hierarchically based
enterprises which essentially “mirrored” legal firms in that they reacted to demand, with
the only obvious difference being that they operated in the provision of illegal goods and
services. However, this thesis was not given much accord until the early 1960s and 70s
when scholars begin to search for alternatives to such paradigms as the cultural or “alien-
conspiracy” theories.8

Landesco’s theory of illegal markets “mirroring” legal ones was perhaps furthest
developed by the work of Smith (1980) who effectively married Landesco’s ecology
theory of organized crime with that of economic rationale. Smith’s theory, for which the
unit of analysis is the illegal marketplace rather than “firms” themselves, suggests that the
line between illicit and licit markets is quite thin. Smith states “illicit enterprises are the
extension of legitimate market activities into areas normally proscribed—i.e. beyond
existing limits of law—for the pursuit of profit in response to demand.” And, as explained
further by Smith (1980), “entrepreneurial transactions can be ranked on a scale that reflects
levels of legitimacy within a specific marketplace (335-336). These two notions together
are referred to as the “spectrum-based theory of enterprise. What this theory suggests is
that the marketplace does not simply end at the “edge” of legitimacy and that as long as
demand and opportunity exists, entrepreneurs will seek to meet that demand. The basis of
Smith’s theory pivots on the following assumptions: (1) legal and illegal businesses exist
on a continuum of economic activity; (2) because they exist on a continuum, legal and
illegal businesses are similar and respond to the same economic and organizational
principles; (3) because legal and illegal businesses are similar, it is possible to apply
theories developed for the study of formal legal organizations to the study of illegal
organizations (Liddick 1999, 208). Passas (1995) sums up the argument as follows:

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8 The “alien-conspiracy” theory was one of the most prominent explanations used to explain organized
crime in the US in the 1950s and 60s, and was largely adopted by most US law-enforcement and political
agencies of the time. This theory largely came as a result of prominent criminologist Donald Cressy who
was a consultant on the President’s Task Force on Organized Crime in 1967 (Task Force, 1967). This idea
was further argued in Cressy’s (1969) “The Theft of a Nation.”
If the goods and services happen to be outlawed, then illegal enterprises will emerge to meet the demand. In this respect, there is no difference between conventional and criminal enterprises. Very often, all that changes when business is illegal are some adjustments in modus-operandi, technology and the social network that will be involved. In some cases, we have a mere re-description of practices to make them appear outside legal prohibitive provisions (3).

The fact that black markets exist due to demand is not a contentious point. Given demand and opportunity, we should expect at least a high probability of willing entrepreneurs ready to exploit such market opportunities. What is in contention however is the organizational form in which such firms take in order to supply such illicit goods and services. In other words, is organized crime in such markets truly organized? In order to address the question of the organizational form, we might begin by addressing the question of why groups would choose organized cooperation over the alternative of disorganized competition.

Building upon the work of scholars such as Williamson (1989), Milgrom (1990) and Axelrod (1984), Skaperdas and Syropoulos (1995) suggests an evolutionary ‘contractarian’ view of the emergence of organizations and institutions (both licit and illicit), such that the agents involved make a self-enforcing contract of cooperation. Skaperdas and Syropoulos (1995) explain that social norms, institutions, and organizations have come to be seen by economists as primarily cooperative and efficient arrangements. Firms are then viewed as minimizing transaction costs, with their most important component associated with durable, relationship-specific assets. Such institutions then economize on information in enforcing arrangements; norms of cooperation then arise when the future is important in the long-term relationships (68).

The above rationale is important for our understanding, but not enough to explain why economic actors would specifically seek to form large-scale firms as is the form often used to describe organized criminal syndicates. Schelling (2002) adds to the concept by explaining that such groups, both in the under and upper-world, emerge for three main reasons: (1) high overhead costs or some other element of technology that makes small-scale operation more costly than large-scale; (2) prospect of monopolistic prices, and (3)
the larger the firm (especially the larger its share of the whole market) the more “external”
costs become costs internal to the firm (163). Therefore, according to the enterprise theory
of crime, we should expect illicit businesses in the market of goods and services to lend
themselves to centralized organization; simply the arrangement is efficient for maximizing
profit.

Since the early 1950s and 60s, the general consensus among scholars studying the
phenomenon was that criminal organizations do centrally organize, that they are
structurally very similar to their legal counterparts, and they operate like bureaucracies.
Like any formal legal organization then, it is argued that organized crime groups are
characterized by a hierarchical authority structure, a rational division of labor, formal rules
and procedures that govern employee behavior, and rigid organizational boundaries
(Liddick 1999, 12). For example, US President Lyndon B. Johnson’s 1967 Task Force on
Organized Crime states:

Organized crime is a society that seeks to operate outside the control of
the government. It involves thousands of criminals working within
structures as complex as those of any large corporation, subject to laws
more rigidly enforced than those of legitimate governments. Its actions
are not impulsive, but rather the result of intricate conspiracies, carried
on over many years and aimed at gaining control over whole fields of
activity in order to amass huge profits.  

Despite the popular emphasis of highly organized, bureaucratic criminal organizations
however this concept has been challenged by many scholars who in contrast argue that
illegal market activities largely take place in a disorganized manner. For instance, in an
examination of New York City’s cocaine industry in the 1910s, Block (1979) found that:

…it was fragmented, kaleidoscope, and sprawling. It was organized and
coordinated not by any particular organization, but by criminal
entrepreneurs who formed, re-formed, split and came together again as
opportunity arose and when they were able (75).

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9 Reprinted from Liddick 1999, 11
Numerous single and cross-country empirical studies of organized crime as well indicate that criminal enterprises tend to be relatively small, short-lived and limited in scope. Reuter (1985) as well argues that due to the nature of illegal markets, political and economic realities ordain that most organized criminal groups remain relatively informal and limited in scope. Reuter explains that there are three main factors which have direct implications for firms transacting in illegal markets: (1) the need to restrict knowledge of participation in the enterprise; (2) the lack of external credit markets, and; (3) the lack of court enforceable contracts (ix). Reuter’s argument is further supported by research conducted by author’s such as Smith (1975), Block (1979) and Haller (1990) all of whom suggest that, rather than illicit markets being dominated by formal corporate like super-organizations, they are instead characterized by countless informal and fluid criminal associations, either in the form of temporary partnerships or networks of patron-client relationships (Liddick 1999, 16).

An additional set of constraints on the size and scope of criminal syndicates operating in black markets is that by the very nature of the illicit market, suppliers of such goods and services are necessarily working without the protection of legitimate state-based, contract enforcing institutions. As a result, actors within such markets cannot resort (at least legally) to state apparatuses in order to enforce contracts and have their violations sanctioned, nor does there exist a legitimate body for which actors can appeal to for redress of injury. And, as noted by Paoli (2002), “The illegal marketplace is thus characterized by the absence of a coherent set of legal rules and sanctions and an enforcement apparatus enshrined to a super partes authority able to compel some of the transactions (51).

The discussion above does not mean to suggest that there are zero instances of structured organized crime groups operating within various black markets. The logic remains that illegal markets are not the same as their legal counterparts and again, the structure and form with which such organizations take ultimately depends upon the political and economic environment they are operating within. Thus, this author concludes that economic theory alone, while useful, is not sufficient for a full understanding of the phenomenon and potential implications.

*Organized Crime as Protection Rackets: The Mafia Typology*
Collectives such as the Sicilian and American La Cosa Nostra, Hong Kong Triads, Japanese Yakuza and Russian Vory v Zakone are often cited as the proto-typical organized crime groups. But as mentioned previously, such groups, while defined as operating under the broad definition of organized crime, are a distinct variant which should be treated and analyzed as such.

What then distinguishes the predominately black-market-oriented firms previously mentioned from those which we traditionally term “mafia-type” groups? Scholars such as Diego Gambetta (1993), Vadim Volkov (1999) and Federico Varese (2001) suggest that the main difference is that mafia-type groups for the most part operate in the business of “protection,” or more generally, in the business of racketeering. Protection/racketeering however is not what would be considered a “normal” economic good or service.

As explained by Gambetta (1993): “Mafiosi are first and foremost entrepreneurs in one particular commodity—protection—and this is what distinguishes them from simple criminals, simple entrepreneurs, or criminal entrepreneurs” (19). Gambetta’s argument originates from his research into the Italian and Sicilian mafias where he suggests that the organization was an evolutionary product of the end of feudalism and the subsequent strife and violent conflict which characterized the era. He continues that such instability and distrust greatly increased the demand for protection—often in the form of contract enforcement, dispute settlement, and property rights among others (79-80). In addition to acting as a substitute for trust, Gambetta argues that the lack of effective state intervention in such areas is an additional key explanatory variable which accounted for the spread of such groups who had a comparative advantage in the effective use of violence (ibid).

With respect to Russia, Volkov suggests that demand for private protection and “mediators” stemmed from insufficient protection of private businesses by state police in the wake of the Soviet collapse in 1991 and the subsequent rapid transition to a market economy. He adds that additional factors, which produced demand for “enforcement partnership”, was a high entrepreneurial risk caused by frequent non-payment of debts and failure to observe contracts, in addition to the spread of swindling and theft. Such outcomes were the result of legitimate state institutions being incapable of reducing such
risks due to the poor definition of property rights, the inefficiency of the state courts of justice in resolving disputes, and their incapacity to enforce decisions (741-754).

Milhaupt and West (2000), in their analysis of organized crime in Japan add to this concept by arguing that the true origins of mafia-type groups can be found in dramatic increases in formal property rights and the weakness of legitimate enforcement mechanisms—as was the case in post-feudal Japan. In other words, they suggest that inefficiencies in state property right structures and a shortage of state-sanctioned rights-enforcement agents are the key causal variables for both the emergence and continuance of such groups (41-98).

Finally (though obviously non-exhaustive), with respect to the American-based La Cosa Nostra, Varese (2001) argues that such groups can trace their origins to the Sicilian Mafia that flourished during the prohibition era of the 1920s and 30s. And, although there had in fact been criminal organizations running illegal prostitution and gambling markets before this period, the Eighteenth Amendment to the Constitution in combination with the Volstead Act (alcohol prohibition), resulted in a massive jump in the demand for, scale, sophistication, violence, and wealth of the groups protecting illegal markets.

What we can see through the explanation of the origins and functions performed by mafia-type groups as noted above is the focus on the effective means of violence—that is, organized violence. And although not employed in every instance, violence can be thought of as essentially a first-order-condition—an ingredient without which mafia-power could not exist. As explained by Hess (1973):

All power is ultimately based on the ability to use force. If a power holder’s position is supported by codified law then this ultimate possibility of enforcement may gradually be forgotten in the conscious mind of the subordinate; in the case of the Mafioso the relationship always remains much more direct. An act of force opens a man’s road to power. Without having applied physical force at least once he would find it impossible to meet the other requirements necessary for the exercise of Mafioso functions. He could not gain recognition, instill fear, or successfully control Mafioso rivals (72).
Given the discussion it is not difficult to see that states and mafia-type groups essentially deal in the same-commodity—that commodity being protection—which is guaranteed through the effective use of violence. And, given this orientation, it is not difficult to make the comparison between the two. For instance, Lane (1958) explains that the differential between affording personal protection and corporate security allowed those with comparative advantages in violence, such as the medieval Venetian oligarchy, to reap what he termed as “protection rent.” Furthermore, Lane suggests that the millennium between 700 A.D. and 1700, the differences in Europe between racketeers and “legitimate” enforcement were quite thin. Lane writes: “A plunderer could become in effect the chief of police as soon as he regularized his “take,” adapted it to the capacity to pay, defended his preserve against other plunderers, and maintained his territorial monopoly long enough for custom to make it legitimate” (401).

The dichotomy between legitimate and illegitimate forms of governance becomes even less transparent when we consider the oft-stated definition of the modern state as provided by Weber (1946):

...we have to say that a state is a human community that (successfully) claims the *monopoly of the legitimate use of physical force* within a given territory” (78).

Following this, Charles Tilly (1985) further breaks the conventional division between state and organized crime: “if protection rackets represent organized crime at its smoothest, then war-making and state-making—quintessential protection rackets with the advantage of legitimacy—qualify as our largest examples of organized crime” (169). Moreover, Tilly argues that when we speak of organized crime and the state, we are essentially dealing with a historical continuum of violence wielding organizations, with the mafia-type groups situated towards the lower end of Tilly’s continuum.

Referring again back to Weber, we can say that, although they (in this sense both states and mafia-type groups) arise as a “voluntary” association—that is an organization that claims authority over voluntary members—they frequently act as a “compulsory” organization—that is, social groups which guarantees the subsistence and the validity of their own legal order within a given territorial area through the threat and the use of
physical force (Paoli 2002, 73). Such a comparison between mafias and states is highlighted quite well by the following quote:

Palermo’s chief prosecutor, Giancarlo Caselli, describes the Mafia…as a state within a state, ‘with its own territory, population and laws’…. ‘The Mafia’s determination to establish itself as a state within the state is what makes it unique,’ says Roberto Scarpinato, one of the 13 prosecutors committed to full-time Mafia enquires. And the would-be state not only imposes its own laws—at gun point—but levies its own taxes. The Economist, April 24, 1993, pg. 21-22

If this characterization of states and mafia-type groups is accurate, such a relationship should be considered antagonistic. In other words, we have two or more “political” groups dealing in the same commodity in addition to both groups essentially vying for monopolistic power over the means of violence within a contested territory. Falcone (1993) writes: “The mafia does not have to be combated because of its values, which may seem warranted in a disintegrating society, but because of its very essence: there cannot be two systems of government in one society” (198). Despite Falcone’s assertion, the relationship may not always be so clear-cut.

In addressing this key puzzle, Schelling (1984) suggests that if the alternative to organized crime is disorganized crime, the benefits of the former outweigh the later. Schelling states: “organized crime firms may be able to “internalize” some of the costs that fall on the underworld itself, but go unnoticed, or ignored, if organized crime is decentralized (172) In other words, mafia-type firms may not only be providing “public goods” to the underworld, but to the upper-world as well by effectively being able to keep negative spillovers to a minimum.

Examples of the “symbiotic” criminal-political nexus are vast. For instance, Peter Hill (2003) through his study of organized crime in Japan provides evidence to suggest a symbiotic relationship between the Yakuza and police, in which such groups are used both to “police” their own territories, in addition to numerous instances of them being used as

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suppressors of various radical movements (251). With respect to pre-revolutionary China, Booth (1999) explains that the KMT government utilized various triads in order to suppress communist uprisings such as the infamous “White Terror” of 1927” in which thousands of people were slaughtered throughout Shanghai (252). In a similar fashion, Lee (2006) points out that during the 1950s and 60s organized crime groups in South Korea were mobilized by politicians in order to guard them from opposing “political gangs,” in addition to disrupting opposition political rallies (61).

Despite a multitude of examples showing this close, criminal-political nexus, the question remains as to whether or not mafia-type groups essentially depend on state-patronage for their existence. The neo-Marxist view for instance, as exemplified through the works of scholars such as Woodiwiss (2001), overwhelmingly views mafia-groups as simply servants of the state. Others suggest that evidence more accurately points to the state as being one among many possible consumers of mafia-services and that state-patronage is simply not a pre-condition for their existence (Hill 2003, 32). While organized crime and mafia-type groups may in fact flourish under favorable criminal-political relationships, to suggest that such a relationship is a pre-condition for the existence of mafia-type groups is to suggest that states in fact have an absolute monopoly on the use of force within the entirety of their territory. Moreover, where the costs of enforcement outweigh the perceived benefits, in either a political or economic sense—it is not unheard of that the legitimate institutions would be unwilling to let such transgressions remain. And, even if policy-makers and law-enforcement officials are in fact opposed to the continued existence of mafia-type groups, it is still possible that they may adopt somewhat of a “quasi-cooperative” policy in light of their acceptance that in many instances they must come to terms with other power groups (ibid, 33). For instance, Celatini, Marrelli, and Martina (1995) argue that governments can and do profit from strategies that bring about stable equilibriums. Such equilibriums they argue, can be found through repeated, fixed games, in which the government ‘rewards’ groups that play by the “rules,” and sanctions those that do not. By doing so, governments are effectively able to minimize the threats from opposing groups who essentially have to compete not only with the state, but other illicit actors as well.

The Patron-Client Perspective:
Following traditional wisdom, the unit of analysis in this review has been up this point at the group or organizational level. Moreover, this study has looked at criminal syndicates as somewhat ending at the boundary of legitimacy. Such a characterization however may not be appropriate for obtaining a robust understanding as to the nature, extent and potential implications of the phenomenon because what is commonly referred to as organized crime often fails to resemble formal institutions with precise boundaries. This section describes not a third type of organized crime, but more so an alternative model and approach for understanding the phenomenon.

The common denominator in virtually all organizations can be reduced to social relationships and networks which often extend into both the licit and illicit spectrums. While such a perspective inherently complicates the analysis, investigating these social networks of individuals rather than organizations as a whole might in fact lead to a better overall understanding as to the true extent and implications of the phenomenon.

An examination of network and patronage systems, as opposed to focusing on strictly defined groups, stresses the importance of personal and interpersonal relations, power relations, and semi/quasi groups. Such an orientation does not necessarily preclude the formation of groups or coordination for the provision of illicit goods and services (protection included), but rather allows for the possibility for the boundaries between the legal and illegal worlds not be as transparent as some tend to argue. Conceptualized in this way, as linkages based on unequal power relationships, criminal syndicates in general can be seen as consisting of social networks that have some element of hierarchy but not completely characterized as so. Such social networks necessarily involve reciprocity, engage in activities beyond purely economic and extend (through various linkages) into the worlds of licit and illicit economic and political realms (Harasymiw 2003, 3).

One example of a way in which relationships can be organized which is aptly suitable for the study of organized crime and other informal institutions is that of the patron-client model which is defined most basically by Schmidt (1977) as a “vertical dyadic alliance, i.e. an alliance between two [or more persons] of unequal status, power or resources each of whom finds it useful to have as an ally someone superior or inferior to himself.” Schmidt goes on to add “in these relationships patrons and clients are in many
ways dependent upon each other. Each party at any time can supply the other with something that they cannot normally obtain on their own” (xx).

In the majority of patron-client relationships the patron has a number of patron-client ties that can be described as a patron-client “cluster.” The patron naturally seeks to expand his or her clientele, as this makes him or her more powerful. A simple patron-client cluster would resemble a “set of vertical dyads extending upwards from various shared clients to a single shared patron who is the central individual of a vertical primary star (ibid, 71).

A major strength of the patron-client model is how it explains the role of public officials, otherwise “legitimate” businesspeople and other concerned parties. From other organized crime perspectives, these important players are often seen as being peripheral to actual criminal organizations. From the patron-client perspective however, those patrons with the greatest power may not be directly involved in illegal entrepreneurship, but instead involve themselves on the distribution and brokerage of informal power, completely independent of institutional or formal power (Blok 1974, 83). And, according to Liddick (1999), among organized criminals it is power and the occasional use of private violence and coercion which characterizes exchange relationships in patron-client networks, through which organized crime mediators channel the distribution of resources (205). If we accept the assumption that a syndicate’s power at least in part rests on a network patron-client ties and overall framework, we are then challenged to address some of the potential sources for those types of relationships. In other words, why are certain localities characterized by high degrees of clientalism while others are not?

One potential hypothesis as to the question above is offered by Putnam (1993) who, through his comparative study of northern and southern Italy, argues that the origins of patron-clientelistic relations in the south rather than the north stems from the beginning of the fourteenth century with the Norman feudal system of governance in the south, and “communal republicanism” in the North. Putnam argues that in the North, feudal bonds of personal dependence were weakened, where in the South, they were in fact strengthened.

While it may be true that southern governance was feudalistic in nature, thus leading to a higher frequency and institutional depth of patron-clientelistic relations during
that period, I am not entirely convinced of the causal relationship between Norman rule beginning in 1400 and continued patron-clientelistic relations beyond unification in the late 1800s and throughout to the present period. Later in the chapter, Putnam somewhat rectifies this by offering that the seeds of patron-clientalism were fed by the weaknesses of the administrative and judicial structures of the state. Thus, rather than some critical juncture which occurred in the 1400s, the true origins of patron-clientalism rests rather with some form of state-failure or otherwise lack of state capacity which thankfully is a much more tractable and generalizable hypothesis.

The theory that such relations are the result some form of state failure is put forth in Shelley’s (1997) article which is an attempt to understand the burgeoning criminal-political/patron-client nexus in the wake of Russia’s political and economic transition. Shelley argues that several specific conditions facilitated the development of the nexus. First, throughout the Soviet period, citizens were severely restricted in their acquisition of private property. Second, state interests were always supreme over those of the individual. Third, the law was not used to protect citizens but to force compliance with state objectives (i.e. rule by law rather than rule of law). Fourth, civil society was totally destroyed precluding the existence of any groups outside of government-controlled institutions (13).

In kind, Bailey and Godson’s (2000) study of organized crime and governance in Mexico argue that such political-criminal networks tend to flourish predominately under the following four environments: (1) Contained Corruption, whereby law enforcement at the sub-national level is ineffective or potentially even compromised in the wake of criminal activity; (2) Centralized-Systemic (formal), whereby corruption within the central government extends to virtually all levels of law enforcement; (3) Centralized-Systemic (formal plus shadow), whereby a parallel structure exists alongside the central government and abets corruptions, and; (4) Fragmented-Contested, whereby centralized bureaucratic incapacity tends to compromise local efforts at law enforcement (16-18).

In sum, what the patron-client approach/model suggests is that in order to understand the phenomenon of organized crime, one must go beyond group level analysis and strict boundaries between the legitimate and illegitimate realms. Rather, we must look at networks which are dependent upon both licit and illicit power. Furthermore, such
relations and networks seem to be more prevalent in environments characterized by a lack of state capacity—a hypothesis which will be tested in this study.

The following section will cover an overview of various research methodologies which have been carried out by scholars investigating the phenomenon of organized crime in various environments. Subsequently, this proposal will outline the specific methodology and rationale for the method, which will be employed in the subsequent study.

**Methodology overview:**

Studies on organized crime have predominately employed a qualitative and principally descriptive based approach. While this paper in part will be informed by qualitative methods, it is the goal of this study to offer a set of replicable, and thus verifiable hypotheses, or at the very least push us in that direction, depending upon the availability and quality of data.

Despite the dominance of qualitative-based studies, there is a growing number of scholars who have been pushing such research towards more quantitatively informed analysis. For example, with respect to econometric analysis, Milhaupt and West (2000) operationalized numbers of organized crime figures in Japan as the dependent variable, and tested the causal effect of increasing private property rights which they found to be statistically significant. While Milhaupt and West’s study utilize what would seemingly be the most straight-forward dependent variable, it is difficult to obtain such statistics in countries with less developed record keeping and thus make replicating their methods in other country contexts (in addition to cross-national studies) problematic. In light of this, other authors have used survey and composite indexes as measures for organized crime activity rather than simply increasing membership in such organizations. Sung (2000) for example, through a cross-national study of organized crime tests and evaluates two oft-stated hypotheses which are that economic and state failure have a significant impact on organized crime activity.

Sung (2000) suggests that because single-society studies have dominated the field of criminological studies, very little in the way of generalizable theories can be obtained. Because of this, Sung set out to develop a feasible way in which to test his two main
hypotheses for which he uses mainly survey data gathered from researchers in the 1999 and 2000 competitiveness evaluations conducted at the Harvard and World Economic Forum. Once the data had been collected, the hypotheses were tested at both bivariate and multivariate levels.

While Sung in part gets over the problematic area of non-comparable or otherwise lack of cross-national data, his use of predominately survey data alone based on the perceptions of a fairly small sample size of researchers leads to low levels of precise measurement and unfortunately a lack of robust results. Moreover, the small time frame used (1999 and 2000) limits the amount of information which can be obtain on such questions as the changing nature of organized crime against the backdrop of economic development and/or institutional improvements (or the reverse of such phenomena).

Similar to Sung, Buscaglia and van Dijk (2005) approach the question of organized crime through a cross-national, quantitatively based study. Rather than relying on predominately survey data as Sung had done, Buscaglia and van Dijk developed a composite index of organized crime activity based on the United Nations Convention against Transnational Organized Crime definition and range of statistics. Following the development of the index, the extent of organized crime in a country was assessed on the basis of indicators of the various defining elements and regressed by independent variables measuring such things as socioeconomic factors, the political sphere, the criminal justice system, private and public sector governance, and the independence and integrity of the judiciary.

While Buscaglia and van Dijk came up with an arguably sound measurement of organized crime, their study suffers from the same serious flaw that Sung’s analysis does which is that the model was not tested cross-temporally which severely limits the amount of potential information which could otherwise be obtained.

An additional flaw of both Sung and Buscaglia and van Dijk’s studies is that they fail to account for the patron-client paradigm which was discussed in the previous section.

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11 Other survey data and information was obtained by Sung from the Executive Opinion Survey, Freedom House, the Heritage Foundation, the IMF, the International Labor Organization, and the Economist Intelligence Unit.
Eclipsing the Sun: Investigating the Shadow of Post-Mao Reforms in the PRC

To be fair, addressing the patron-client model is necessarily information dependent, which obviously limits cross-national studies, but nevertheless it is safe to assume that in at least developed states the continued existence of such groups over time is dependent upon such relations. Thus, any model, which leaves out this arguably key explanatory factor, is necessarily open to omitted variable bias. Furthermore, while Sung and Buscaglia and van Dijk make a strong case for large-n studies, for which this author is entirely sympathetic to, at this point there has yet to be developed a robust method for addressing patron-client/criminal nexus relationships on such a large scale, as the devil is for the most part in the details.

The realization that patron-client relations can in fact hold significant explanatory power however is not enough though. The next step is to develop a way in which to effectively operationalize this variable. The majority of studies looking at such relationships again, have predominately been descriptive and or game theoretic in nature such as the work conducted by Xia (2008) and Skaperdas and Syropoulso (1998) which while helpful, are ultimately not conclusive and un-falsifiable.

One method for getting at such relationships in a verifiable manner is referred to as the social network analysis approach. While significant work using this method has been conducted in other fields (e.g. investigations of the links between business networks and legitimate firm performance (see Stark and Vedres 2006), much less has been done in the field of organized crime. One exception is Ming Xia’s (2008) study which researches organizational formations of organized crime groups in China. Through the use of predominately archival and journalistic information, Xia finds that successful syndicates (defined as having longevity) have grown substantially in the post-Mao era and while taking a number of different forms, predominately form into three main structures: (1) a cobweb structure; whereby a hegemon occupies the center of the network and other smaller players are allowed to interact among themselves; (2) a production and distribution chain; whereby groups formed a chain-like structure; with criminals and other actors (e.g. public officials or otherwise influential actors) linked through production, supply and demand lines; (3) a hub-and-spokes structure; whereby a central actor coordinates illicit transactions with multiple actors one-dimensionally and keeps them away from each other (Xia 2008, 20-22).
Xia’s study is impressive in that it makes a strong case for the network analysis approach, but unfortunately it does not go beyond mere description and never adequately explains or verifies how the structures and connections of these syndicates directly effects their success or lack thereof. To be fair though, the network analysis approach is highly information dependent, and to do significant work with this method, one would have to essentially map out the entire network on a national level scale which is virtually impossible to do given the nature of the phenomenon (e.g. successful groups are most likely less transparent and the information needed to establish the direct and indirect linkages between legitimate actors and illegitimate ones is quite difficult to obtain). Secondly, it would be extraordinarily difficult to obtain significant data cross-longitudinally on both successful and (quite importantly), non-successful groups.

Because of the problematic issues with respect to obtaining direct information on the various networks and criminal-political nexus, using a proxy such as various types of corruption (e.g. variations in types of corruption explained by Baily and Godson (2000)) should prove entirely more pragmatic.

**Hypotheses and Proposed Methods:**

**Derived Hypotheses:**

This study has covered some of the main explanations for both criminal syndicates operating in both the business of illicit goods and services and mafia-type groups which operate in the business of “protection.” From the analysis above, we can surmise that mafia-type groups and illicit enterprises most readily emerge in situations in which the demand for illicit goods and services (“protection” included) exists and the environments in which legitimate forms of governance either are non-existent, or otherwise ineffective. Such a hypothesis would appropriately account for periods of increased property rights, such as in times of economic and political development.

Given that the shape, size and scope of organized criminal syndicates are ultimately dependent upon the political, economic and social environments in which they exist within, and based upon the above conceptual analysis, three empirically testable
hypotheses that deal with the specific institutional sources of organized crime can be offered.

[H1] *The emergence and existence of organized crime groups is positively correlated with a state’s failure to protect both property and political rights:*

States fail when the government ceases to provide political freedoms, civil rights, criminal and civil justice, personal safety, and collective security in an efficient and just manner. State failure fosters organized crime by raising the general levels of violence and fear of violence, which in turn raises the popular demand for security. When the state succumbs to crime and civil strife and ceases to guarantee internal security as a public good to its citizens, personal safety becomes a scare commodity to be traded. Furthermore, corruption is a symptom of state failure and thus is hypothesized to be positively linked to increased organized crime activity. However, it is not simply corruption we’re looking at, but variance in types of corruption. Following Baily and Godson (2000), this variable will be treated as a categorical measure, ranging from (1) contained corruption; (2) centralized systematic (formal); (3) centralized systematic (formal plus shadow), and; (4) fragmented-contested.

[H2] *The emergence and existence of organized crime groups is positively correlated with a state’s failure of the attainment of general socioeconomic well-being of the population as a whole or a subset of the population.*

Economic failure occurs when there exists an acutely ineffective use of capital and labor, and/or when there is an exceedingly unjust distribution of basic goods and services for subsistence. Unlike the concept of market failure, which focuses on the breakdown of the fundamental mechanisms of a market economy, economic failure refers to the unsuccessful outcomes of a national system that allocates material and financial resources in such a way that people can lead lives according to their needs and interests.

Financial crisis, unemployment and scarcity of basic goods and services signal a breakdown of the economic system. A society or subset of society weakened by chronic joblessness and poverty or otherwise lack of opportunities increases the propensity of the emergence and or expansion of organized crime groups and underground economies.
[H3] The emergence and existence of organized crime groups is positively correlated with a state’s move towards economic development.

Market reforms include deregulation, privatization and trade liberalization, and the general opening up of new markets (Andreas 1999). While free market reforms open up legal opportunities, it can also unintentionally open up, facilitate and encourage illegal opportunities as well.

Dependent Variable: Composite Index of Organized Crime

Following Buscaglia and Dijk (2003) this study will utilize a composite index of organized crime as the dependent variable. This index will combine objective factors linked with complex crimes. In particular, data will be obtained on smuggling of firearms, estimates of smuggling of cigarettes, car thefts, number of homicides, size of the informal economy and the business sector’s perceptions of organized crime prevalence, inflows of laundered money in millions of dollars per year as a proportion of gross domestic project and trafficking in persons in terms of nationalities of suspects. The index used in this study will rank each province for each variable that each province shows for each item mentioned above. The index will only include provinces for which there are at least three observations out of which at least two are “core activity” factors. Higher values will correspond to greater prevalence of organized crime. Data for this index will be obtained through national/provincial statistics and survey analysis.

Independent Variables:

[H1]

- Following the International Country Risk Guide’s Property Rights Index (ICRG), this study will, through data obtained through survey analysis, measure how well a province protects both property rights and political rights by looking at four key indicator variables: (1) expropriation risk; (2) Risk of Repudiation of Contracts by Government; (3) Rule of Law, and; (4) Quality of the Bureaucracy. The four variables will have scores ranging from 0 to 6, with lower scores being associated with levels of protection of property rights and political rights.

[H2] and [H3]
• Level of unemployment
• Economic productivity and output as measured by the Real GDP growth rate
• Per Capita GDP level
• Gini Coefficient
• Degree of openness of an economy as measured by the scale and scope of regulations applied to foreign trade, and openness to imports and foreign direct investment.

Case Selection:

Five cities have been selected for inclusion in the survey research. They have been chosen for their representation of certain basic differences including geographic variation, industrial sector variation (in particular the representation of different types of ownership), level of economic development, integration with the external global economy through trade and investment, and levels of unemployment and state sector layoffs. We have not however selected cities to capture the full range of variation (for example cities in the northeast with the highest rates of unemployment and layoffs or cities within China’s poorest inland provinces.

**Shanghai**: central coastal China, highest levels of economic development, varied ownership, and increasing integration with the global economy, lower levels of unemployment and layoffs.

**Tianjin**: industrial city in China’s Bohai Gulf, close to Beijing, high level of economic development, well integrated into the global economy but also with a large state sector and high levels of layoffs and unemployment.

**Chengdu**: inland China, capital of Sichuan Province, less integrated into the global economy with lower levels of foreign direct investment than the coastal areas.

**Hangzhou**: central coastal China, capital of Zhejiang Province, which has a well-developed private economy and a moderately high level of economic development.
**Shenzhen:** southern coastal China, one of the first areas to be opened up to foreign direct investment and trade, very high levels of economic development, well-integrated into the global economy, industrial sector is dominated by foreign and private business.

**Conclusion:**

Organized syndicates engage in a vast number of nefarious activities such as fraud, extortion and drug trafficking. They extract profits through the use of violence and impose at times serious challenges to economic and political growth and state capacity. While there is reason to view the descriptive statistics utilized in this proposal with a grain of salt, the trend of growing organized crime activities and influence is clear. This trend has occurred in the face of at times severe and brutal top-down approaches towards the eradication of such groups which may suggest that the underlying factors contributing to the emergence of organized crime are not being adequately addressed. Such factors with potential explanatory power include rampant corruption, rising unemployment, increasing inequality, loosing of social constraints which may be correlated with a decline in the regimes institutional mechanisms for monitoring and policing, and the introduction of private property rights without effective institutions to protect such rights.

An additional factor which needs to be accounted for is absolutely economic development. While economic development with fairly even distribution would seem to mitigate some of the factors related to the emergence of organized crime such as poverty and unemployment, it can also have the unintended consequence of creating illegal opportunities for more economically oriented type crimes as well.

While there are many different variations of organized criminal groups as highlighted by the authors in both the Chinese specific overview and general literature, we can broadly categorize them as falling into either the “enterprise-model” or “mafia-typology.” Groups which fall into the first category necessarily exist due to demand for illicit goods and services. This is true in even the most economically and politically advanced polities.

While it is true that enterprise-type organized crime may in fact spur demand for violence-wielding “mafia-type” organizations due to their very nature of operating without
the protection of legitimate institutions, the western experience has predominately shown that through the process of modernization and state development, there is an associated drop in violence-related crimes. In the case of China however, preliminary statistics show that there has been a significant increase in both property and violence-related crimes—and increasingly so by organized networks.

While China is still in its development phase, thus making it difficult at this point to determine whether the rise in organized crime activity is simply a transitory or long-term trend, the increase in both property rights crime and violence by organized criminal groups in China may hint at significant structural problems. Such structural problems in turn could point to potential regime decay with definite long-term implications for China’s future economic and political development. This research agenda thus seeks to add clarity to this puzzle.

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