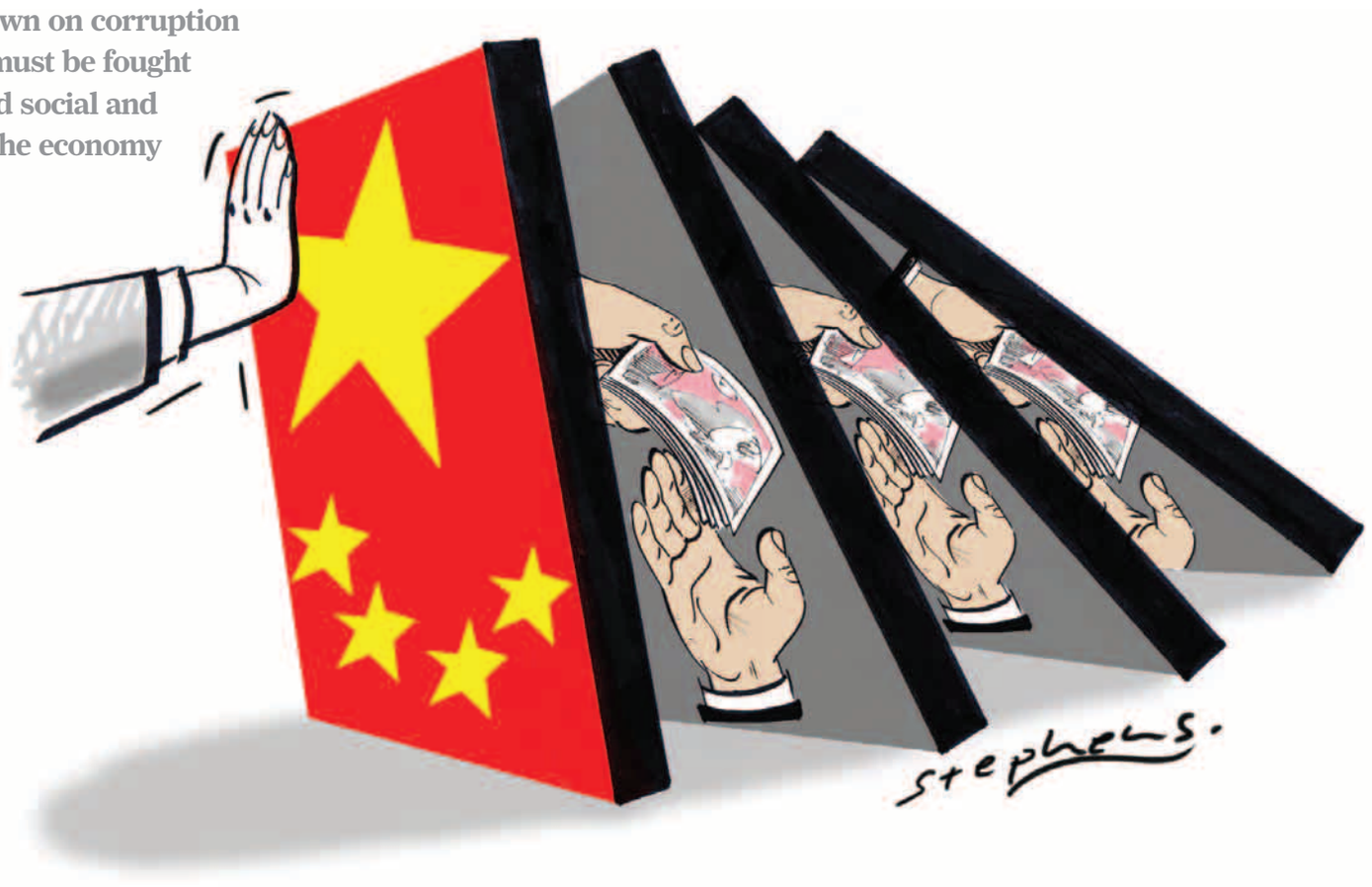
INSIGHT

A force for good

G. Bin Zhao says China's crackdown on corruption will be a long, hard battle but it must be fought openly and with integrity to avoid social and political turmoil and damage to the economy



These days, the phrase "anti-corruption" is perhaps among the most common to be found in the Chinese media, and it echoes through all levels of public discussion. The GlaxoSmithKline bribery scandal has created panic among some multinational executives in China, particularly within the pharmaceutical industry. A number of government officials at various levels, as well as senior managers of state-owned enterprises, have been greatly concerned too, fearful that they might be next in line as top leaders strive to build a corruption-free government.

The anti-corruption campaign's achievements have garnered muted praise from the public, yet this is just the prologue to a "New Long March" that the Communist Party will have to endure.

The original Long March, which started in 1934, was without doubt the bitterest struggle the party has ever faced but, fortunately, it enabled it to recover from the brink of failure.

In the eyes of many, the ongoing war against corruption is also a life-and-death matter, not only for the party, but also for the country as we know it. But it is worth noting that there is concern, both domestically and internationally, that the anti-corruption campaign might create another uneven playing field in China's business and political environments.

As an example, GlaxoSmithKline has admitted that its executives did indeed bribe some doctors and health care officials in order to boost its sales in China. Nobody would argue about the legality of such behaviour; it definitely violates Chinese law. Bribery is top of the list as a means of facilitating corrupt activities worldwide, and it cannot be tolerated in any country.

However, as one informed analyst, with the backing of many others, has said: "In reality, who does not bribe the doctors and officials in the Chinese pharmaceutical industry? It is a very common practice and many companies are doing it. Compared to the multinationals, local enterprises are even worse because they have poor products and barely conduct any research and development on new drugs."

So, it seems that GSK's behaviour is not an isolated case but, sadly, an industry practice which has existed for years. So, why has it been singled out for investigation? Why has it become the "lamb to the slaughter" in the current anti-corruption campaign? And why has this case received especially intensive coverage from CCTV, the most influential and popular state-owned broadcaster, boasting more than one billion viewers? Such coverage is rare in the extreme.

There are a few possible reasons, but they might not paint a complete or concise picture. First, the whistle-blowing by a former GSK executive – plus the fact that it is a large drug manufacturer – makes it the perfect target for the anti-corruption campaign in its bid to fight both "tigers and flies". Second, health care costs have surged in recent years, and it is well known that corruption is one of the major causes of increasing expenses in the sector. Third, some pharmaceutical multinationals have blatantly disregarded, or at least did not take seriously, the directions from regulatory authorities to reduce prices as a part of health care reform.

Whistle-blowing ... is probably still an effective tool, but it is definitely not a long-term strategy

Nevertheless, given that bribery is a common practice, many executives from both Chinese and foreign-owned pharmaceutical companies could face jail terms if the investigations spread.

And it's not just the health care sector; the whole Chinese business world is heavily polluted with corruption, in the form of bribes, kickbacks, patronage and back-door deals. Thus, as the anti-corruption campaign continues, it is generating a great deal of fear throughout many parts of society. In a worst-case scenario, this could create social unrest, and may even drive the country into chaos.

Furthermore, there are fears that the crackdown targeting government officials and party members might be used to strike down political enemies, such as may have happened in the case of the disgraced former Politburo member, Bo Xilai (薄熙來) – and as may be happening now with the investigation of former State-owned Assets Supervision and Administration Commission head Jiang Jiemin (蔣潔敏) – rather than being used to reinforce strong and honest governance.

The campaign itself is a double-edged sword: on one hand, it will alleviate corruption and hopefully ease social inequality and conflict; on the other, its misuse could create unforeseen disasters especially in the event of mass political dogfights and wild accusations. Therefore, China should urgently develop a more mature anti-corruption mechanism.

It seems top leaders are serious in their fight against corruption, and they appear determined to strictly execute their measures to combat the scourge, both now and in the long term. Given how deeply ingrained corruption is in the country, it will take years of hard and sometimes harsh work to deal with the problem. At this stage, the whistle-blowing mechanism is probably still an effective tool, but it is definitely not a long-term strategy.

The whole world is watching to see what the next move will be in the campaign, as this affects more than just Chinese and international business leaders and entrepreneurs. It is vital to be fair, keep all action open and above board, and ultimately bring evil to justice. Unreasonable action could threaten a large group of elite and would most likely result in huge capital flight, damaging China's economic accomplishments and possibly pushing the nation into an abyss.

Fortunately, as we have seen from the high level of openness in Bo's trial, key leaders seem to realise that preserving transparency and integrity is crucial in anti-corruption cases.

It can only be hoped that there will be no great surprises and the anti-corruption campaign will follow a steady and persistent course. That way, we can expect China to play a leading role in the global economic recovery well into the future.

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Undue influence

Alice Wu says strict rules aimed at curtailing the sway of associations in Macau's legislative election actually had the opposite effect

Only an hour's ferry ride apart and both special administrative regions and former colonies, Hong Kong and Macau are often talked of as if they were glued together by a geopolitical bond. This is probably because the conditions and arrangements for the two cities' transfer back to China looked identical. But, other than the fact the people speak the same Chinese dialect, comparing them is like comparing apples and oranges.

It is no wonder, then, that many outside Macau seemed surprised by the results of the fifth Legislative Assembly election held a little over a week ago. It really shouldn't be so shocking.

Despite the "low-profile" election – as many in the media called it – voter turnout, at 55 per cent, remained high. With an increase in registered voters, a 5 per cent drop in turnout still translated into more people voting this year than ever before. The reason "pro-democracy" candidates weren't able to capitalise on the two additional directly elected seats up for grabs this year, and the increased number of voters, wasn't political apathy, or the perceived "low-profile" nature of the election.

Macau is a close-knit community and therefore associations – whether by kinship, clanship, profession or industries – are and have historically been the social binds of society. And in that, Vasco Fong Man-chong, head of Macau's Commission Against Corruption, is right to say that "Macau's elections are all about association culture".

This means candidates with strong community and association ties have the advantage. Compound that with the inherent advantages incumbents enjoy, and it should be no surprise that the top two lists, in terms of number of votes received, featured candidates hailing from, and relying on clanship connections with, the Fujianese and Guangdong communities. It's much easier to mobilise voters when social structures and cultural influences are in place. It's essentially Tip O'Neill's famous "all politics is local" maxim, with a Macau twist.

The ridiculously short 14-day official campaign period, in addition to strict rules for candidate promotion introduced by the Electoral Affairs Commission, are why the election atmosphere, at least on the streets, was dampened. Rather than designating areas where the display of campaign materials is forbidden, electioneering was barred from all but government-designated areas.

Restricting candidates from contact with voters made it even more difficult for new-office seekers to win. By reducing the lines of open, equal and fair communication between candidates and voters, associations with strong membership had even greater political clout. Worse, it essentially stopped voters learning more about candidates.

So it isn't voters' taste for free meals and gifts, or the "association culture" that tilts the playing field in Macau politics. And it isn't the candidates' fault, either. The biggest story in the election was that the stringent election rules, originally aimed at curtailing the political influence of associations, actually made associations not only useful but systematically necessary in electioneering.

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Bigger may be better when it comes to transforming China's state machinery

Winston Mok says reform in urbanisation and innovation requires co-ordination across ministries

In his recent piece in the *Financial Times*, Premier Li Keqiang (李克強) explained how the government will take a holistic approach in managing the complex processes of China's transformation. To co-ordinate the direction and implementation of far-reaching reforms involving multiple stakeholders, the State Council recently approved a joint conference involving 35 ministries or departments.

There is no need to be alarmed by an unwieldy monolith involving a cast of thousands. Instead, the conference is a framework where ad hoc working groups will be formed to address targeted issues. Among the many groups that could emerge, two stand out:

First, on urbanisation. China's urbanisation has been proceeding rapidly but not necessarily in the right direction. It is meant to provide a better life for migrant workers and farmers. Instead, their lives have often become more miserable in the process. The process has sometimes been hijacked by vested interests pursuing short-term economic interests. Urbanisation's multi-dimensional and interrelated issues under different ministries must be carefully balanced. An urbanisation working group could lead to better co-ordination among the likes of the ministries for land resources, construction, finance and transport.

Second, a group targeting innovation. Innovation was the theme of the World Economic Forum recently held in Dalian (大連). Despite greater research and development investments and a larger number of patent applications, Chinese companies' capacity for innovation has slipped from 23rd to 30th. To boost innovation requires fundamental changes, beyond what the Ministry of Science and Technology may hope to achieve by itself. Many research projects at US universities are funded by the US Department of Defence. The internet started as a defence project, for example. Many Israeli commercial innovations have military origins, too. Innovation is related to defence and education, and a working group could have the Ministry of Science and Technology, Ministry of Defence and Ministry of Education as its core members. Yet, interestingly, the defence ministry is not among the 35 ministries in the joint conference framework.

China's urbanisation has been proceeding rapidly but not necessarily in the right direction

The principle underlying such co-ordination can also be more broadly applied in reforms beyond the State Council.

For example, among the key economic regions, the Yangtze and Pearl river deltas are the most developed. Both have effective co-ordination mechanisms across administrative boundaries involving the leaders of different cities or provinces. Compared to the two deltas, talks about the integrated development of the greater Beijing-Tianjin-Hebei region have been less co-ordinated, with diverging interests leading to lots of talk but little substance. This shows that cross-boundary co-ordination may not necessarily lead to material progress. To solve Beijing's chronic air pollution, for example, a concerted effort is needed among neighbours.

For the greater Beijing region, given the parochial interests of powerful stakeholders, strong leadership at a higher level – perhaps headed by a vice-premier – may be needed to co-ordinate regional interests for the greater good of the nation.

Co-ordination could involve more than the State Council for some top-level issues. To wean local governments from their addiction to excessive borrowing, reforms in municipal finance are needed, and that requires a new budget law. This has been in the making for a decade, with no end in sight.

The new law pertains to the balance of power between the legislature and the executive. But a draft circulated last year was seen as taking serious steps backwards, as it was developed under the influence of the Ministry of Finance – whose power the new law is meant to check. To really address the problem of local government debt – which at its heart is an issue of governance more than mere finance – co-ordination at the highest level is needed.

Premier Li has often mentioned that reforms are system engineering. As "institutional innovation" becomes more complex, reforms may be better co-ordinated through such a joint conference framework. It is all the more necessary as Li has yet to implement the anticipated "large ministries" system. In China, responsibilities are often fragmented across ministries. In Japan, they have been consolidated. For instance, urban development can be more effectively led by the giant Ministry of Land, Infrastructure, Transport and Tourism. Japan may be better able to co-ordinate innovation with its Ministry of Education, Culture, Sports, Science and Technology.

China's ad hoc groups for the new joint conference are supposed to be disbanded after they have served their purpose. But, pending restructuring of the state machinery, some groups may need to remain long term.

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How being poor can affect your ability to deal with other issues

Cass Sunstein says study has important implications for poverty policies

Suppose you got no sleep last night and have to take an intelligence test today. If you're like most people, you're not going to do so well. Now, suppose you are struggling with poverty and you have to take the same test. How, if at all, will your score be affected?

Harvard University economist Sendhil Mullainathan and Princeton University psychologist Eldar Shafir offer a clear answer – you will probably do pretty badly. In a series of studies, they found that being poor, and having to manage serious financial problems, can be a lot like going through life with no sleep. The reason is that if you are poor, you are likely to be preoccupied with your economic situation, and your mind has less room for other endeavours. This claim has important implications for how we think about poverty and for how we select policies designed to help poor people.

In one experiment, Mullainathan and Shafir went to a large shopping mall and asked a range of participants how they would solve a financial problem related to fixing their car. Participants were randomly assigned to one of two versions. In the "hard" version, the cost involved was pretty high. In the "easy" version, it was low. After explaining how they would solve the problem, people were subjected to intelligence tests.

Here's the remarkable result: when rich and poor people were assigned the easy version of the problem, they performed about the same on the intelligence tests. But when they were assigned to the hard version, with its larger financial stakes, poor people did a lot worse.

Was this a result of some kind of "maths anxiety" on the part of the poor? Evidently not. In a second experiment the authors began with arithmetic questions, using the same sets of numbers as in the first experiment.

In this version, greater difficulty in the initial question didn't produce differences between rich and poor on subsequent intelligence tests.

If you are poor, you are likely to be preoccupied with your economic situation

What's going on? The academics have a straightforward answer. If you are poor and you are trying to manage a hard financial situation, your mental resources will be strained, and you are less likely to perform well on other tasks.

The researchers created a similar test involving sugar cane farmers in India: they face serious financial pressures before harvest; afterwards, they are far more comfortable. The same intelligence test was given to hundreds of farmers pre- and post-harvest. After harvest, the farmers looked smarter.

In their experiments, the scholars found the effect of being poor and having to manage a hard financial problem is equivalent to the loss of 13 IQ points – comparable not only to the loss of a night's sleep but also to that of being a chronic alcoholic, or being 60 rather than 45. Their conclusion is that poor people "are less capable not because of inherent traits, but because the very context of poverty imposes load and impedes cognitive capacity".

This claim casts a new light on some important findings with respect to the behaviour of poor people, including the difficulties they face in complying with drug regimens, keeping appointments and managing their finances. In all these cases, the problem isn't adequately described as a deficient sense of responsibility. It reflects, at least in part, the cognitive demands created by poverty itself.

There are also important implications for government policy. Even more than the rest of us, poor people can greatly benefit from frequent reminders, as well as from sensible default rules. With respect to forms and applications, simpler is usually better. If we are trying to design educational, training and employment programmes for the poor, that is a critical lesson to keep in mind.

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