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**Administrative Reform: Issues of
Ethics and Governance in Malaysia and
China**

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**Administrative Reform: Issues of Ethics and Governance in
Malaysia and China**

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Abstract

This paper seeks to develop an understanding of the issues that public administrators should strive to provide in ethical practices and governance thus allowing distinctive administrative and social traditions that each country possess to flourish. Significant changes and continuities in the realm of government in contemporary China and Malaysia will be drawn upon. Recent developments have brought a sense of urgency in contrast to complacency with the status quo. This paper reviews pertinent administrative and ethic issues related to both countries and whether the administrators engage in sustaining the reform agenda while still maintaining the professional capacity and flexibility of administrators when re-delegating responsibly within changing institutional settings.

Keywords: *public administration, state, policy, administrative reforms, governance*

Introduction

Governance is consistent with the rule of law and the spirit of the law; does not result from nor can it be justified by illegal or legally-suspect actions. The absence of good governance can undermine the legitimacy of public institutions and disrupt policy goals. Accountability in governance is an issue in most countries and a cornerstone

of all. The importance of an efficient and ethical administrative system in developing and implementing sound development policies and programs is well recognized. Governance is crucial especially in the public administration where there is a need to reform the public sector to overcome many unethical and inefficient bureaucratic dysfunctions and problems, at least to keep it at a minimum and to manage the related challenges. In order to achieve the desirable concerns of management and governance, administrative reform policies have emphasized not only reforms of the civil service system, public finance, and state-owned enterprises, but also restructuring in market liberalization, privatization, deregulation, and decentralization. Policy measures need to emphasize professional efficiency and ethical norms and values so as to reduce bureaucratic corruption, social inequalities, and political influence in administration otherwise called for and from using the state to distort private exchanges. The efficient management of the economy and ethical bureaucratic behavior in a nation is of utmost importance. Based on recent experiences, it is crucial to conceptualize the administrative reform at work in both driving and restraining change and in turn promote efficient governance and ethical practices within the state bureaucracy. The implication is that more often than not, good governance could often have positive effects on the economy and development.

Good governance involves active public participation and citizens today are more educated and equipped, demanding more from the government but trusting it less. Good governance is described as the process by which public goals were achieved in an efficient, effective, and ethical manner. While public officials should be accorded sufficient power to deliver good governance, there must be

effective restraints on the arbitrary exercise of that power so that the general interests and not special interests are served.

While states remain powerful actors in global society, confidence has declined in their ability, on their own, to adequately address the emergent challenges of a complex, interdependent world, thus resulting in higher demands of governance, both domestically and globally.

Background to Administrative Reforms

Public administration is an output linkage that serves to transmit information and resources from the state to civil society and also an input linkage because it delivers demands from actors in civil society back to the state. Again, it is an instrument of state power with the legitimate use of force and coercion. Decisions and outputs of the state are produced according to priorities set by the politico-administrative system rather than by the impersonal forces of the economic market or the obligations of civil society.

The term administrative reform has acquired multiple views but no doubt there is consensus that the outcome of administrative reforms should result in efficient and effective public sector service structures, improvement of public sector operational performance and economic development (Caiden 1991). Attempts to implement reforms very frequently throw up new issues or sometimes the outcome can be different from what is expected. Implementation is a crucial stage in the sense that it can attribute to the desired changes and about what to do

next, be it to continue or change. State structures, the prevailing administrative culture and the diversity of channels of advice have effects on the choice of reforms to be adopted and the feasibility of implementing certain types of reform.

Difficulty in administering reform is that policies that threatened the livelihood of political actors, including bureaucrats with vested interests, will be much avoided. Evidence of this can be seen in the policies of deregulation, financial reform, and privatization due to the political and economic clout. In other words, successful implementation required the cooperation of the very political actors who were the targets of reform. In developing countries, the distinction between politicians and bureaucrats tends to be blurred and an alliance between the ruling elite and high-ranking officials has often led to an oligarchy of power and privilege (Seidman and Seidman 1994).

In the case of Malaysia, the post-independence period involved the extensive expansion of state functions. For instance, economic management programmes and projects were launched, and new public organizations were created. Mobilization programmes were also established and variously labeled nation-building programmes. The main goal, of course is to involve the citizens into the mainstream of economic and social development. Public institutions and bureaucracy were the centre-piece of these new endeavours. Doctrines of guardianship via political parties and the executive dominated the management of public affairs largely to the exclusion of public participation.

In Malaysia, there is a federal system of government, although the power of the states is limited and the system was adopted initially only because the royal rulers of the Malay states were retained to make the acceptance of British colonial rule easier. The structure and functioning of government is conducive to high degree of control. Malaysia's development philosophy envisages the modernization of peasant agriculture through the diffusion of capital, modern technology, values and institutions. It also advocates keeping the national economy open to international trade and capital, thus reinforcing the dependent nature of the economy. Planning in Malaysia is primarily concentrated into sectors, programmed for public sector resource allocation with corresponding indicative projection for private sector investment and growth. Planning had grown in sophistication since the fifties, in terms of information gathering, preparation and implementation especially with the growth of the public sector and increasing state intervention involving greater political and bureaucratic control. Public development expenditure heavily favoured export and urban interests, with priority for providing economic infrastructure such as telecommunication, and electricity, to service the primary commodity export economy in Malaysia.

Malaysia, as a developmental state is characterized by the institutionalization of the political economy of the state and market with paternalistic authoritarian governance which is tolerated to some degree. The issue is not one of state intervention in the economy as also experienced by China as all states intervene in their economies for various reasons and political priorities. State-business relations are not forged through industrial policy alone as in China but through ethnic division of labour in managing politics and economy (Woo-Cumings 1999).

Interdependence of state and business in Southeast Asia is driven more by push and pull of these short-term interests. The emergence of state-centred public administration under the developmental state coincided with rapid economic growth and after the economic crises of 1980s and 1990s witnessed a reform of public administration and a reversed economic achievement especially for Malaysia rather than China. In brief, public agencies were reviewed to reduce bureaucracy and expedite service delivery related to issuance of permits, licenses, and land administration as well as economic investment and related matters and eventually led to introduction of new application forms and mobile counters and one-stop clearance centres to reduce time taken in obtaining approvals.

China's political reform is political incrementalism, aimed at continuously adjusting its institutional framework to guarantee economic reforms and political stability on one hand, and accommodate drastic changes resulting from socio-economic development on the other. Xia (2000: 134) perceives China as a *dual* developmental state, supported by both legislative and local political institutions, with structures at both central and local levels. It accounts for the patterns of power relationships between the centre and sub-national units, and between the executive and legislature. Emphasis is placed on networks, with heavy analytical reliance on the transaction costs approach to the firm for understanding political hierarchy. In short, it is the politics of economic policy with the notion of market imperfections. Deng Xiaoping's guideline for China's reform course and his choice of the developmental state model cast a choice-set upon the Chinese legislative development and set it on the track of hybrid mode of governance,

distinguishable from both the market and hierarchical modes of governance as a way for organizing politico-economic transactions.

Civil Service Reforms

Malaysia's transformation into independence witnessed the need for further administrative changes where previously was constrained by the lack of training opportunities for the civil administrators. The country was expanding rapidly in the 1960s but lacked professionals and technocrats in science, economics and many other fields. It was imperative that improvement be made in the administrative system. In tandem with the recommendations, a unit was established called the Development Administration Unit dealing with training programs for all levels of civil service whereupon this task was entrusted to the University of Malaya in the Faculty of Economics & Administration.

The ongoing process equipped Malaysian officers with the appropriate skills in public administration thereby contributing to the transformation of the civil service into the backbone of the governance process which further strengthened the administration.

A more drastic and dynamic change in public administration was experienced during Mahathir's leadership which set new dimensions in Malaysia's political and socio-economic developments. New policies such as New Economic Policy, Look East Policy, Malaysia Incorporated, Privatization, and Multimedia Super Corridor with its silicon valley were incorporated. The training programs by the National

Institute of Public Administration under the jurisdiction of the Prime Minister's Department were made available for government officers. These include policy planning tasks and program implementation since the 1980s.

One of the first steps China took in administrative reform was to establish a merit system by staffing the state administrative apparatus with technically competent professionals rather than politically loyal cadres. Besides, re-education of administrators was another way to improve government officials' technical and administrative capabilities. On one hand, the civil service might be highly professionally with a merit-based recruitment, however, on the other, it might also be highly politicized with a patronage system, in both countries.

The process to bring about technically competent government officials were institutionalized with "The Provisional Regulations for State Civil Service" being put into effect on October 1, 1993. The new regulations stipulate that the recruitment of state civil service must follow the following procedure: public notice of entrance examinations, investigation of applicants' qualifications, open examinations, assessment of political ideology, moral characters, and work capabilities for those who have passed the examinations, and approval by personnel agencies at or above the municipal level.

Although the Chinese state began tackling the pension issue in 1986 through a pooling of pension obligations across enterprises, this and subsequent arrangements, and further efforts aimed at creating a three-tier system, have not yet advanced beyond the pilot stage. The three state pillars are the following: a

state pension that would provide an amount equal to one-fifth of the provincial average wage, an individual pension account administered by the state that accumulates 11 per cent of an individual's salary, and voluntary pension arrangements. Thus, retirees depend on inadequately funded, municipal pay-as-you-go schemes and often survive on government subsidies. Quite apart from the costs of supporting workers laid off by privatized state-owned enterprises (SOEs) and those that exit voluntarily, there is the risk of political turbulence dangerously in excess of the level already aroused by reforms introduced since the mid 1990s. This strengthens the hands of government and party officials opposed to SOE reform of a radical sort, who in turn are supported by many managers and workers in the SOEs. Policymakers thus face the unenviable task of weighing the political costs of layoffs and increased social security payments by the state against the costs of implicit subsidies and protection to unreformed SOEs including the nonperforming loans accumulated by banks as a result of their loans to the state sector (Yusuf, Nabeshima and Perkins 2006). Vested interests in the economic bureaucracy are relevant and too important to leave them in the hands of privatization entirely, hence the governance of strategic economic assets ultimately works in the service of the party-state rather than the market (Pearson 2007).

After a series of smaller efforts to restructure China's economic bureaucracy, in 1998, Premier Zhu Rongji launched a major reorganization. Eleven of 40 ministries and departments were eliminated, as were 15 additional commissions that were directly responsible for managing the economy and a revamped task was formed through the National Development and Reform Commission. Its

functions include approving large investment projects proposed by state firms, overseeing pricing in the infrastructure sectors, formulating and overseeing industrial policy. Efforts to improve the quality of bureaucrats had been ongoing just like Malaysia. China has established regulatory commissions governing key infrastructure sectors such as the Chinese Securities Regulatory Commission, China Insurance Regulatory Commission (1998), General Administration of Civil Aviation (2002), State Electricity Regulatory Commission (2003) and China Banking Regulatory Commission (2003). Naturally, the Chinese Communist Party maintains an important supervisory role over many reforms. (Pearson 2007).

In recent weeks, in the central provinces of Henan and Shanxi, police have rescued hundreds of people who had been kidnapped and forced to work in brickyards and coal mines. Authorities have alleged that local government and Communist Party officials were involved in some of the businesses. Hence, the Labour Contract law was passed on 29th June 2007 by the standing committee of the National People's Congress, China's legislature, and will take effect January 1. The legislature also passed widely expected measures authorizing the government to reduce or abolish a tax on interest income from bank deposits, approving the appointment of a new health minister and authorizing a plan to sell 1.55 trillion Yuan, or about US\$204 billion, of bonds to fund a new government agency that will invest foreign-exchange reserves. The new labour law was driven by rising government concern about abusive employment practices. Another law passed earlier this year strengthens prohibitions against child labour, and a law to improve the handling of workplace disputes is also being drafted. China is concerned that many workers don't receive salaries on time, are trapped in short-

term contracts that give them little job stability or lack formal contracts altogether. The new law toughens requirements for contracts and discourages shorter-term agreements. Government agencies whose dereliction of duty causes harm to workers will be responsible for making compensation. Officials also promised that when the law goes into effect, they will step up enforcement efforts to make sure its protections are realized. What remains a concern is that there exists a large gap between legislation and local governments' ability to implement laws which has a detrimental impact on the credibility of the rule of law.

Economic Reforms

China has made enormous progress in liberalizing markets and integrating itself in the market and world economy and the consequent rapid economic growth for the past decades. With increased reform and opening to the outside world, foreign and domestic observers have become more indispensable in understanding China's politics and economics.

China went through the period of nation building in the early 1950s and the following period of the ambitious Great Leap Forward. The turmoil of the Cultural Revolution disrupted the economy for a decade and since the end of the 1970s the country has been experiencing a policy of market socialism. China's economic performance has been remarkable, and its economy has changed from a state-owned, centrally planned into a mixed ownership and decentralized nature.

Agricultural reforms were launched first and later extended to the rest of the economic activities. Provinces have been left to defend itself fiscally, and must mobilize resources from their jurisdictions. Local governments must rely on the profits of state enterprises as the source of revenues. Therefore, an effective strategy for local governments is to enter a coalition with the enterprises; in exchange for the protection and preferential treatments offered by local governments, the enterprises agree to continue to support the local governments by contributing to either on or off budgets, or to both. At this stage, local governments play a dual role; on one hand they protect their local partners against the central government and on the other, they assume the role of the old patriarchs of enterprises. Far from being extinct, command economies continue to survive at the lower levels of government.

Domestically, in 2006, China abolished her 2600 year old agricultural tax to boost agricultural production and growth and to raise income of the 800 million-peasant population, to ensure stability and sustainable growth, and to achieve food security. Besides, China is undertaking plans to improve rural infrastructure including irrigation and transportation network, subsidise rural education and improve affordable rural health care.

Most recently, China will let individuals buy Hong Kong securities directly, in a pilot program that may allow more of the country's foreign exchange reserves to flow overseas. China's currency is not fully convertible, which means individuals are barred from investing overseas. Only some institutional investors are allowed to buy abroad. Chinese individuals at present are permitted to invest abroad only

through licensed funds run by banks and brokerages. Domestic individuals could invest their foreign currencies in Hong Kong stocks after setting up a bank account with Bank of China Ltd in Tianjin's Binhai economic zone. The new rule helped individuals who owned foreign currencies to bypass the regulator's US\$50,000 annual limit on foreign exchange purchases.

There is widespread view that the privatization policy in Malaysia has favoured the vested interests and many beneficiaries were chosen based on political and personal connections and incurring losses and liabilities on many occasions. Audit reports reveal high incidence of failures on part of the federal, state, and local governments to comply with relevant rules and regulations, loss and embezzlement of public funds, improper monitoring and supervision. In developing economies, privatization has been an incomplete and faltering process, so associated regulatory reforms are either new or poorly conceived, and most often regulatory reforms will proceed piecemeal, without proper sequencing or coordination. Since poor governance is generally a situation in many developing economies, political and economic systems demonstrate a propensity for regulation inside government.

Reforms recently proposed in the government-linked companies are consolidating in the hope that removing GLCs from ministerial control and setting up special governance and oversight management will kick off the process. Such reform will reinforce both achieving financial goals and improvement in the public service and strengthening regulatory institutions from post privatization restructuring. By reforming the boards of GLCs, governance issues will be addressed and policy

makers can clarify and quantify costs of national development agenda on periodic basis not to mention opening up greater investment opportunities in the region.

The achievement of the National Integrity Plan can be hastened through the immediate implementation of transparency as a core principle at all government levels. Privatization programmes and Government procurement in Malaysia are conducted through non-transparent processes. Only notifications of tenders are made public. There is also avenue for arbitration. A greater cause of concern is the fact that concessions agreements are considered official secrets. Due to a non-transparent selection process, the concession agreements and Government procurement lead to sub-optimal outcomes. This has also led to allegations of corruption. The Public Works Department is under siege for the multi-billion Ringgit fiascos involving the MRR2, the Matrade Building and the Navy Recruit Training Centre.

Interestingly, the latest call for greater scrutiny into highway privatization deals stems from an admission by former Prime Minister Tun Dr Mahathir Mohamad that concession agreements that his cabinet had approved in the past had been flawed. The fact of the matter is that the public is becoming increasingly aware of the importance of full disclosure as the magnitude of the country's commitments in infrastructure projects keep surfacing. From the current situation, it is patent that the issue of transparency and accountability especially in public expenditure cannot be avoided indefinitely. As the costs of infrastructure projects continue to stretch our nation's finite resources, more stringent audits of project financing will become imperative. It would be good practice at least for the cabinet to habituate

itself to disclosing revenue from its concessions as a first step towards full transparency and accountability.

Other examples include the jailing of former Amanah Ikhtiar Malaysia managing director Mukhtar Ramli for criminal breach of trust of RM3.8 million marks a dark episode in the annals of the institution that had gained the world's attention as the oldest replica of the well-known Grameen Bank model of micro-financing for alleviating hardcore poverty. Ironically, political patronage was to cloud its future, as it led to a drift in priorities away from the poorest levels of the society.

Allegations of cronyism and preferential treatment revealed weak corporate governance practices during the 1997 Asian Financial Crisis which brought about the Malaysian Code of Corporate Governance in 2000. The governance of the banks was under criticism during the financial crisis in the areas of loan appraisal and loan monitoring. The ability of the government to implement the rules and regulations will depend on the quality of the regulatory environment, growing international pressures and intensification of the reform agenda.

China's governance as they stand at present in a series of studies conducted by the OECD in co-operation with the Chinese government in 1995 suffer from a number of issues particularly in relation to China's public finances and social stability. To date, China has already taken some steps to improve its public and private governance. The report acknowledges that laws and regulations are often applied in an unsystematic manner and can be skewed by special interests.

China has made progress in strengthening the budget management and civil service systems – the two main pillars of public administration but many weaknesses remain, leading to inefficiencies.

Legislatures were strengthened to make the government more accountable in its policy-making. More administrative rules and regulations were issued for the purpose of policy implementation. To restrain the bureaucrats, the system of legal defense was revived and legal advisory offices were reinstated. In the process, a new generation of better-educated and bolder attorneys became available to protect individual citizens against abuse or misuse of power by government officials (Ma 2000).

Further, administrative efficiency was developed through decentralization. Several provinces were granted more management autonomy by the central government. Special Economic Zones with more decision-making power were set up. Inter-provincial coordination and horizontal links were encouraged. Regional economic networks such as the Southwest Economic Zone and the Beijing-Tianjin-Tangshan Economic Zone were taking shape.

Undeniably, corporate governance rules and practices result from a system of complementary institutions, laws, and enforcement practices. Much greater attention is required to ensure efficiencies and effectiveness in implementation. The corporate governance system of a country is a result of the linkage between political, economic, legal, cultural and historical elements, thus efficient functioning in promoting and strengthening the corporate governance is localized.

Allegations of cronyism and preferential treatment revealed weak corporate governance practices during the 1997 Asian Financial Crisis which brought about the Malaysian Code of Corporate Governance in 2000. The Malaysian capital market has a number of provisions for instance the Kuala Lumpur Stock Exchange (KLSE), now known as Bursa Malaysia, listing rules provide for checks and balances to enhance transparency and accountability. The governance of the banks was under criticism during the financial crisis in the areas of loan appraisal and loan monitoring. The ability of the government to implement the rules and regulations will depend on the quality of the regulatory environment, growing international pressures and intensification of the reform agenda.

Currently there is the Companies Commission of Malaysia Act 2001 which came into operation on 16 April 2002. The Act establishes the Companies Commission of Malaysia, provides for its function and powers and for matters connected therewith and is a merger of the Registry of Companies and Registry of Business. Corporate law in Malaysia is primarily based in the Companies Act 1965 (No. 125) which is based on the UK Companies Act 1948 and the Australian Uniform Companies Act 1961. Major subsidiary legislation includes the Companies Regulation 1966, Companies (Winding Up) Rules 1972. In regards to public listed companies, the following legislation and also regulatory directives apply – the Securities Industries Act 1983, the Securities Commission Act 1993, the Malaysian Code on Takeovers and Mergers, 1987, the Guidelines on the Regulation of Acquisition of Assets, Mergers and Takeovers, and the Bursa Malaysia Listing requirements and Practice Notes.

A recent issue of corporate governance is that of air cargo firm Transmile that revealed net losses of RM126 million for 2006 instead of a profit of RM156 million. It also booked losses of RM370 million for 2005 instead of a profit of RM86 million. In May 2007, the firm announced it was unable to finalise its 2006 financial accounts after its external auditor Deloitte & Touche said it was dissatisfied with the fairness and validity of some transactions. Overstated revenues were among false financial statements that the company had been filing.

China's economic reform started from rebuilding the market system and evoking competition instead of privatizing most of the state-owned enterprises. As a result, even many years after the establishment of the market-oriented economy, the government in general, still keeps a large share of the ownership. However, the governance practices in the corporatised firms are seriously defective with insider control, collusion, etc in spite of the highly centralized ownership. Generally, the management holds excessive power in decision-making. This phenomenon has been widely referred to as "ownership absence". Even in the private firms, the representative of owners is often not acting in the best interest of owners, suggesting that boards in many large firms are captured by management (Li 2004). This problem has not changed much even after the corporate governance reconstitution became the central issue of the reform.

The government's desire to build a socialist market economy, to modernize, and to become part of the World Trade Organization all fuelled the move to try to

improve shareholders' rights and protection of those rights, the insulation of company boards from inappropriate influence, and greater transparency and disclosure. However, although many of the provisions are on paper for an effective corporate governance system, in practice, the state still owns large shareholdings in many companies, minority shareholders' rights are sometimes ignored, and companies are liable to have influence exerted over them. In the PRC, corporate governance developments involve a number of regulatory bodies, including the China Securities Regulatory Commission (CSRC), the Ministry of Finance (MOF), the State Economic and Trade Commission (SETC), and the People's Bank of China, which is essentially the Central Bank of China.

Scandals such as Lantian Co. Ltd, a public listed ecological agricultural company in China have helped fuel the drive for corporate governance reforms and in January 2001, the CSRC issued a Code of Corporate Governance for Listed Companies in China. The Code is broadly based on the OECD Principles of Corporate Governance and contains seven main chapters dealing with: shareholders and shareholders' meetings; the listed company and its controlling shareholders; directors and the board of directors; the supervisors and the supervisory board; performance assessments and incentive and disciplinary systems; stakeholders; information disclosure and transparency.

It is imperative that market integrity is preserved during good and bad times so that all participants have equal access to information and can reasonably expect a certain standard of behaviour from companies listed on the stock market. It is very clear that at both Megan Media Holdings Bhd and Transmile Group Bhd in

Malaysia, there have been serious transgressions with accounts being falsified and profits overstated by hundreds of millions of Ringgit. And there are perhaps another half a dozen companies at least where similar things have happened and there is serious doubt whether their accounting records can be relied upon by investors to give the correct information. The important factor is that when such corporate crimes are committed, especially when it involves listed companies, it is imperative to get the persons responsible under the law, otherwise there is no disincentive to corporate crime.

China began a major overhaul of its banking system in 2002, which led its biggest banks to take on foreign strategic investors and launch initial public offerings. Despite frequent reports of corruption and fraud in local branches, analysts say cash infusions from the government and the share sales have put the banking system on a much stronger financial footing. Now Chinese banks are looking to move into developed economies to better serve their main corporate clients: Chinese companies that increasingly operate globally. In recent months, two Chinese banks, Industrial & Commercial Bank of China Ltd. and China Merchants Bank Co., have applied to open branches in New York. Currently, just two Chinese banks – Bank of China Ltd. and Bank of Communications Co. have branches in the U.S.

China's entry as a full member of the Financial Action Task Force (FATF) on Money Laundering stands to boost the ambitions of the country's cash-rich state banks as they try to expand overseas. FATF was established by the Group of Seven nations in 1989. Its mission is to set standards to prevent money

laundering and to share best practices among national regulators. FATF began considering China's membership in 1998 and allowed the country to join as an observer in January 2005. At the conclusion of the second round of the U.S.-China Strategic Economic Dialogue in May 2007, the U.S. said it strongly supports China's membership. Hong Kong, a key financial centre for China, has been a member since 1991. China's FATF membership also could act as a catalyst for a further domestic clamp-down on corruption. China's legislature passed an anti-money laundering law in October, which took effect in January 1. More recently, regulators have issued "know-your-customer" rules that require banks, brokerages and other institutions to keep records of major transactions and regularly verify the identity of their clients.

The appointment of the former vice chairman of the China Banking Regulatory Commission, Tang Shuangning as the chairman of China Everbright Group is a step toward the revamp as its banking unit awaits a government capital injection. China Everbright Group, a state-owned financial conglomerate under the State Council, is the bank's largest shareholder with a 24.16% stake. Its Hong Kong listed unit, China Everbright Ltd., owns a 21.4% stake in the bank.

Since 1998, the Chinese government has carried out some reforms of registration certificate (Registration Regulation of Business Scope for Enterprises, 2004). A number of licensing requirements have been abandoned. In addition, some local governments have altered procedures, involving some shift from set-up licensing (SL) regimes to independent licensing (IL) arrangements, the use of parallel

licensing or joint licensing procedures in case of multiple SSL requirements and a conditional registration certification.

Corruption Scandals

Every nation with no exception needs to establish a government of integrity by restraining bureaucratic corruption and to curb unethical bureaucratic behaviour. Malaysian economic and political landscape has too many vested interests seeking involvement and control. For instance, the fallout of a deal between Jebel Ali Free Zone (Dubai) and Port Klang Free Zone was because of red tape, political meddling, inaccurate minutes and attempted tax evasions. The situation is perpetuated by the lack of enforcement from every single government body, from the town councils, to the ministries, to the law enforcement agencies. Examples include illegally clearing forests, forging official documents, destroying public property, illegally operating gaming machines, ignoring traffic regulations, stealing metal installations, pirating CDs and software, giving and taking bribes, misusing public office, illegally occupying government land, under-declaring income, dumping rubbish and toxic waste, poaching protected animals, and etc.

Another most recent notable case in Malaysia is that of an assemblyman, Zakaria Mat Deros who was acquitted of charges. Transparency International Malaysia and the public were concerned about the decision to withdraw the 37 charges against Zakaria and six other directors for offences under the Companies Act as it might question the standard of independence, integrity, and professionalism of the institutions concerned. The Companies Commission of Malaysia (CCM)

withdrew all the charges against Zakaria and six other directors of Titi Steel Sdn Bhd and Harvest Court Industries Sdn Bhd in the Klang magistrate's court for, among others, not holding AGMs, not submitting financial statements and not submitting profit-and-loss accounts. No reasons were given to the court but CCM officials and lawyers for Zakaria had said he charges dropped after "representations were made" to the CCM.

Public projects in Malaysia should be more closely evaluated to ensure that they are guided by rigorous cost-consciousness and financial prudence. The high-cost public expenditures need effective follow-through mechanisms for the desired savings or corrective actions to be realized. The Auditor-General's powers are limited by law to auditing public expenditures. The onus of addressing the weaknesses his office may identify lies with other authorities. The prosecution of persons who may be responsible for financially damaging actions is another kettle of fish yet again. In this situation, it becomes necessary to ensure that the public auditing process is taken to its logical conclusion. This provides good reason for an institution like the Public Accounts Committee to have a balanced composition, so that it can act in a non-partisan manner on public expenditure issues. The open tender process is also a fundamental requirement for mitigating the possibility of conflicts of interest and for promoting cost-efficiency in public procurement. These instruments of accountability are indispensable for promoting a high standard of ethical conduct as we progress towards a developed nation status.

In China, anti-corruption campaigns, on the other hand, were being carried against enormous resistance and opposition from all levels of the Party and Government hierarchy. Even the CCP Central Commission on Discipline Inspection, the Party's most powerful weapon against unethical bureaucratic behaviour, was experiencing great difficulty fulfilling its assignments. Failing to perform their functions properly, due to constant external and internal interference, several members of the commission decided to resign from their posts in 1994. Even the CCP General Secretary then, Jiang Zemin also admitted that resistance and opposition against corruption went beyond the Party's anticipation and grew intolerable in many cases (Ma 2000).

The political culture in post Mao-China is characterized by ideological confusion and vacuum. Reformers failed to establish conduct due to difficulty in building new approaches and code of behaviour other than strengthening group solidarity such as *guanxi*. The need to adapt to the new circumstances and to secure one's position and privileges has prompted government officials to see *guanxi* as the basis for their survival and a must for the pursuit of their interests. The growing informal organizations within the state bureaucracy often undermine the implementation of policies.

Examples of Bribery-case convictions

Zheng Xioayu

- Title: former head of China's State Food and Drug Administration
- Charges: Charged with receiving a total of \$850,000 in bribes from eight drug companies.

Hao Heping

- Title: Former director of the medical-equipment of the State Food and Drug Administration
- Charges: Charged with taking bribes of about \$100,000 from four companies between 2002 and 2004, as well as

the bribes were either given to him directly or through his wife and son.

- Sentence: To death on May 29, 2007. On appeal.

Cao Wenzhuang

- Title: former director of the drug-registration

Department at the State Food and Drug Administration

- Charges: Charged with accepting \$307,000 in bribes

from two medical companies that were seeking approval to sell their products.

- Sentence: To death, with a two-year reprieve, on July 6, 2007
-

illegal possession of firearms.

- Sentence: To 15 years in prison on November 28, 2006.

Source: *The Wall Street Journal*

President Hu Jintao, who is also the Communist Party of China Central Committee's general secretary, at a plenary session of the CPC Central Commission for Discipline Inspection laid out four key steps in the next stage of China's anti-corruption campaign in January 2007. They are: to step up ethics education; to keep up the momentum of the campaign by routing out key offences and high-level suspects; to address the problems that pose a great threat to the public interest; and to mend the official system and its procedures at the same time.

China's anti-graft fight last year led to the downfall of several senior officials, most prominently Chen Liangyu, the former party chief of Shanghai, who is implicated in the misuse of the city's public social security fund. It was reported that Chen diverted 3.5 billion yuan (RM1.57 bil) from city pension funds to lend to a crony's business. Chen released another billion yuan (RM448 mil) to another company that in return gave his son Chen Weili, well-paid top positions that needed no

work. Two other high-ranking figures removed from their positions on corruption charges were Liu Zhihua, former vice-mayor of Beijing; and Qiu Xiaohua, former head of the National Statistics Bureau.

Product Safety

China alleged that U.S. authorities were exaggerating the risks, suggesting that American authorities may be playing up the dangers to fan a backlash against China's imports because of trade disputes between the two nations. Nevertheless, China acknowledged systemic problems and cracked down on errant factories, 180 of which were shuttered and also ban celebrities from endorsing medicines, health supplements and food tonics in a move to ensure product quality. China's officials began to come out with pledges to overhaul its food-safety system, and approved the nomination of Chen Zhu, a 54 year-old Paris trained scientist who is not a member of the Communist Party, as the country's new health minister, according to a report by the state-run news agency Xinhua. China allows a small number of officially recognized alternative parties, although they serve as advisers to, rather than competitors with, the ruling Communist Party. Mr. Chen doesn't have any political affiliation and he succeeds Gao Qiang, 63, who took the top health post in 2005 after serving as executive vice health minister. Mr. Gao will serve as secretary of the ministry's leading Party members' group and vice minister (*The Wall Street Journal*).

The recalls came amid a spate of moves by regulators in several countries to recall Chinese products ranging from automobile tires to food and toothpaste, citing potential safety and health risks. Some of the recent issues of concern in the export products are as follows:

China's Export Products Issue	
Feb 2007: Hasbro recalls 1 million Easy-Bake toy ovens made in China after reports of burn injuries to children.	June: U.S. halts import of five types of seafood from China after traces of banned drugs and pesticides found.
Mar: Chemical melamine found in wheat gluten exports to U.S. for use in pet food. 60m containers of pet food recalled after deaths of cats and dogs.	Jul: European Union reports that while China contributes less than six per cent of EU imports, goods made in China are responsible for more than half (55%) of all products recalled.
Apr: About 4mil toy bracelets recalled in U.S. over lead paint fears.	Jul: Spain withdraws two Chinese-made toothpastes after samples are found to contain DEG.
May: Dominican Republic bans two brands of Chinese toothpaste contaminated with industrial solvent diethylene glycol (DEG). Contaminated toothpaste also found in Panama and Australia.	Jul: U.S. recalls more than 200,000 Black & Decker garden tools after 58 injury reports.
May: U.S. recalls 450,000 Chinese-made truck tyres after key safety feature found to be missing.	Aug: British Company Gilchrist & Soames recalls its Chinese-made toothpaste from hotels in 17 countries.
June: Mattel Inc. – largest U.S. toymaker recalls 1.5 million Chinese-made Fisher-Price Infant toys worldwide because of possible lead-paint hazards to children.	Aug: Mattel orders global recalls of more than 18m Chinese-made toys worldwide. Aug 13: Head of Chinese company supplying Mattel toys commits suicide.

Reflections

In spite of the cases mentioned above, it is of paramount importance to what extent the truth of the critics as doubted by some that there may be protectionists in the West who are seizing on isolated cases to drum up support for trade sanctions, at a time when the country is amassing a huge trade surplus. At least, this was the case when the U.S. was against the palm oil production of Malaysia which claimed its hazardous nutritional value as a protectionist action on the soy

bean of the U.S. China also responded by banning some imports of American frozen poultry and pork insisting they were tainted by antibiotic residues.

Arguments frequently descend into a mire of competing scientific claims about safety and risk in which trade negotiators let alone ministers and the public risk drowning in complexity. And while consumers' patriotic desire to protect domestic farmers or manufacturers requires some degree of altruism, given the higher prices this entails, fears of being poisoned by foreign food appeal directly to their self-interest. There has long been a suspicion that some standards-based barriers to farm or agri-food products are substitutes for other, more transparent forms of trade protection such as tariffs or quotas. A few high profile WTO disputes such as the European Commission's ban on meat containing growth hormones, Australia's barriers on imports of salmon or Japan's restriction on imports of apples as well as recent research, seem to support this contention of imposition against middle-income emerging markets. The symbolism can be acute. For instance, during a protracted dispute about Vietnamese catfish entering the US market, in which US catfish producers tried a variety of legal devices to block imports, farmers and lawmakers at one point suggested that the catfish might contain traces of the Agent Orange dropped in the Mekong delta by US aircraft during the Vietnam war. Less extreme cases also have the potential to create ill-will.

China is awash with liquidity and with US\$1,300 billion in reserves, can afford to be choosy about which foreign investors it allows in and which sectors they can play in. Activity has been driven by regulatory reform, economic growth and the

opening up of China following its entry into the WTO. China's growth has become far more important to Asian neighbours and over the last seven years, China's trade with ASEAN's 10 member countries has more than doubled. At the moment, China is investing in Asia and becoming a viable trading partner where the US once dominated. US complacency toward Asia is enabling China to make greater inroads into a region that once was near the top of America's commercial and foreign-policy agendas.

Further, the healthy political relations between China and Malaysia have been contributing to the economic growth and investment. In fact, Malaysia's investment in China is much larger than that of China's in Malaysia. Given China's sustained economic growth and the ongoing "going global" policy, it is worth noting that China's political economy with Malaysia and others will experience further expansion.

The impacts of transformation and governance of public administration in Malaysia have been modest. Whilst some improvements are visible in terms of scaling down the public bureaucracy and increase of IT application in service provision, reforms are yet to bring about the desired changes. They have neither radically altered the structure of the public bureaucracy nor the values, beliefs and practices associated with it, although there are some who label these reforms as "paradigm shifts". Though reforms are seen positively, the low ratings received in recent international and regional comparisons of Corruption Perceptions Index and Transparency International, indicate that reforms have failed to bolster efficiency, competence and accountability within the public sector. The

government in Malaysia, just as in China, remains centralized, much of the functions continue to be performed by vertically integrated bureaucracies with the traditional nature of the public sector characteristics. Accountability mechanisms need to be strengthened to address the anomalies in public administration and greater demands have been placed recently on the government for policy changes in administrative processes.

China's approach seems to be moving and adapting as responses and results become evident and four features can be traced as consistent themes in implementation: *gradualism*, *partial reforms*, *decentralization* and *self-reinforcing reforms*. It is noted that China's reform approach continues to be on individual interventions at the sectoral level, rather than the formulation of grand, cross-sectoral comprehensive blueprints in contrast to Malaysia

There are intrinsic constraints and limits to governance and inherently beset with dilemmas and paradoxes of intervening decisions and interorganizational linkages. The fact that most reform efforts end short of achieving their desired results are common. If most reforms fall short of their mark, and if such carefully orchestrated transformation efforts cannot assure the success of administrative reform, then what can be said about the prospect of successful reform when governments are in a weaker position to commit budgets, manpower and time to engineer a reform? As most scholars would agree, considerable attention ought to be given to developing mechanisms to deal with intractable problems of governance. Most often, familiar situation of political-administrative environment have resulted in counter-intentional effects of the process of implementation in

the direction of inefficiency and corruption and the perennial questions of public administration remain. We must continue to work to ensure that the representative system allows the conduct of public administrators to be scrutinized by the people in a transparent and accountable manner.

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