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

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Introduction
The importance of an efficient and ethical administrative system in developing and implementing sound development policies and programs is well recognized. There is the need to reform the public sector to overcome many unethical and inefficient bureaucratic dysfunctions and problems. In order to achieve the 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. The efficient management of the economy and ethical bureaucratic behaviour 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 discussion that follows is not intended to profile the various administrative reforms in both countries but focused on selective cases that undermines ethics and governance practices in Malaysia and China whereby the latter is more detailed not for any intended purpose but in the interests of the limitations of time and space.

Administrative Reform
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

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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.

**Malaysia**
The major ingredients of administrative reform pursued in Malaysia’s post-independent economic development experience included civil service reform, decentralization of government structure, improvement of public service accountability, privatization of public enterprises, and corporate governance. However, issues concerning the above may not be detailed but suffice to just mention in this paper.

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.

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.

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 wad 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

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 reinstalled. 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.

**Labour Force**
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, reeducation of administrators was another way to improve government officials’ technical and administrative capabilities.

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.

In recent weeks, China has been consumed by a gruesome scandal in the central provinces of Henan and Shanxi, where 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 Labor 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.

**Corporate Governance**
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 corporatized 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 center 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.

**Corruption Scandals**

Every nation with no exception needs to establish a government of integrity by restraining bureaucratic corruption and to curb unethical bureaucratic behaviour. 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.

Further, political power is a monopoly and hence the lack of checks and balances in China’s administrative system. The CCP has established an interlocking structure of the government and Party in ensuring that the state administration follows the Party’s directives, thus making it difficult to address issues of ethics and governance in public administration.

The Chinese government generally responds to corruption scandals by announcing a crackdown, rounding up senior officials and encouraging the state-controlled domestic news media to cover their trials. Beijing stresses that corruption within its own ranks is the greatest threat to the Communist Party. But it’s unclear whether the government pursues the bribers with the same zeal as the bribed. What is less certain is China’s commitment to punishing the possibly more widespread practice of offering bribes, not just the high-profile government officials who take them. As a policy, the Chinese prosecution does not go after those who bribe.

Recent bribery prosecutions follow a string of food-and-drug safety lapses from tainted pet food to toothpaste. China has reacted by closing 180 food manufacturers and pledging to crackdown on corruption and shoddy safety standards. International concern over the safety of Chinese exports has increased, with the U.S. Food and Drug Administration most recently issuing a safety alarm for farm-raised seafood imported from China that may contain unsafe chemicals and antibiotics.

On May 29, the Beijing No. 1 Intermediate People’s Court sentenced Mr. Zheng Xiaoyu, the former head of China’s State Food and Drug Administration for receiving bribes of cash and gifts during his tenure at the helm of the State Food and Drug Administration. The court justified the death sentence by citing the large bribes and damage to the country. The companies or people who gave Mr Zheng the bribes were not identified at that time. Despite the high-profile trial and sentencing of Zheng Xiaoyu, the government hasn’t made any public announcement about which companies bribed him or which company officials were involved in the graft.

Two documents posted on the web site of the law firm that represents Mr. Zheng, Beijing New Era Law Firm name some of the Chinese pharmaceutical companies that allegedly gave bribes to Mr. Zheng, according to defense documents that cite the prosecution. However, these aren’t easily accessible to the public. One of the Chinese companies has a business deal with a Texas company to manufacture syringes that are sold in the U.S. Another one of the Chinese companies has a deal with a drug company in New Jersey to develop drugs for sale in the U.S. A concern, observers say, is that corrupt government officials could be allowing unsafe medicines on the market, either in China or overseas. On June 20, the 21st Century Business Herald, a national newspaper in China, published an article based on documents it said it had found on Beijing New Era’s Web site that detailed some of the companies allegedly involved in the bribery. The article prompted a columnist for the China Youth Daily, a state-run newspaper published nationwide, to call
for the government to punish not only those who receive bribes but also those who give them. China’s Central Propaganda Department, which controls the country’s media, was unhappy about the 21st Century Business report, hence officials with the propaganda department asked Sina Corp.’s Sina.com and Sohu.com Inc.’s Sohu.com, two of China’s largest internet portals, to remove the article from their sites the same day it was published. The report was removed. In addition, a reporter at China Business News, a Shanghai-based newspaper that published a similar article detailing the bribes, was suspended from work for a month, along with the paper’s assistant chief editor.

### Bribery-case convictions

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<thead>
<tr>
<th>Zheng Xioayu</th>
<th>Hao Heping</th>
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<tr>
<td><strong>Title:</strong> former head of China’s State Food and Drug Administration</td>
<td><strong>Title:</strong> Former director of the medical-equipment of the State Food and Drug Administration</td>
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<tr>
<td><strong>Charges:</strong> Charged with receiving a total of $850,000 in bribes from eight drug companies. the bribes were either given to him directly or through his wife and son.</td>
<td><strong>Charges:</strong> Charged with taking bribes of about $100,000 from four companies between 2002 and 2004, as well as illegal possession of firearms.</td>
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<tr>
<td><strong>Sentence:</strong> To death on May 29, 2007. On appeal.</td>
<td><strong>Sentence:</strong> To 15 years in prison on November 28, 2006.</td>
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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

Source: The Wall Street Journal

The government could be pursuing a case against the companies without making their investigation public. High-profile cases against officials tend to receive more publicity, but authorities also pursue other cases which may go unreported, such as cases against those offering bribes to officials.

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. 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.

**Food Safety**

So far, this year, the U.S. Consumer Product Safety Commission has issued dozens of recall notices for children’s jewelry and toys made in China that were found to contain dangerously high levels of lead. It also recalled a magnetic building-block toy, distributed by Kipp Brothers of Indiana. In early July, the commission recalled a plastic counting toy in the shape of a castle. It said that small parts could come loose and pose a choking hazard for children. That toy was made in China for Infantino LLC of San Diego. Both companies cooperated with the recall. The jewelry in the latest recall was marketed under the name Essentials for Kids Jewelry Sets, and imported by Future Industries, of New Jersey. Its recall was voluntary.

Lead alloy if often used by Chinese manufacturers to make costume jewelry, often because it is less expensive than zinc and other less-dangerous metals. Paint with high levels of lead has also been discovered on toys made in China. In the cases of other Chinese-made toys, most are essentially recalled because of design flaws, such as small pieces that can cause children to choke if swallowed. 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. In June, the U.S. Food and Drug Administration said toothpaste from China and counterfeit Colgate toothpaste may contain diethylene glycol, or DEG, a chemical used in antifreeze.

In response, the Chinese government reacted at first with defiance and denial. It charged that U.S. authorities were exaggerating the risks, even 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. However, later, China shifted course by acknowledging systemic problems and cracking down on errant factories, 180 of which were shuttered. China’s officials began to come out with pledges to overhaul its food-safety system, and in an unexpected move, the Chinese government 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).

Increased scrutiny from U.S. and EU, has also prompted Japan to increase its vigilance. After finding an increase in the number of shipments of Chinese eels that didn’t meet Japanese safety standards, Tokyo now inspects every eel imported from China. The FDA’s decision in late June to detain all Chinese shipments of shrimp, catfish, basa, dace, and eel unless they are proved free of residues of illegal antibiotics and chemicals comes after a string of safety alerts over Chinese food exports to the U.S. The FDA said it had
tested 89 samples of seafood from China from October 2006 to May 2007 and found that 25% of the farm-raised products contained potentially unsafe residues. For instance, on May 2, the FDA stopped a shipment of frozen catfish fillets exported to the U.S. by Guangxi Naning Baiyang Food Co. because they contained traces of unsafe animal drugs, according to a listing in the agency’s online database that tracks the hundreds of shipments the agency refuses each year.

In the European Union, each of the 27 member states runs its own safety inspections when goods are imported, but the bloc’s central office in Brussels sets guidelines that EU members have to follow. For example, the EU has the power to order systematic checks of the kind of strict controls the U.S. is now applying. Currently, EU food-safety officials use risk analysis to determine which consignments they’ll check. Food from China raises more flags than most other products, although the EU says it doesn’t have numbers of what percentage gets checked. In 2006, national customs authorities rejected three shipments of seafood after finding unsafe residues. So far this year, they have sent back nine shipments and in each case, Beijing has been notified.

**Reflections**

There are intrinsic constraints and limits to administrative reform and inherently beset with dilemmas and paradoxes of intervening decisions and interorganizational linkages. After all the time and effort put in for effective measures, let not some bureaucrats declare that the outcome of investigations is classified. 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. 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.

**References:**


