

# Economic slowdown & corruption crackdown in China: the impact on entrepreneurs

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# Economic slowdown: strong will for change

- Government *fully aware*; reformist will; wants to curb "undesirable externalities" (cleanup decades of rampant industrial pollution; sweeping anti-corruption purge ); attempts to engage in structural reforms to create profound changes (manufacturing → service, public → private; investment → consumption; rural → urban).
- To encourage private business/SME/ entrepreneurs toward an innovation-led growth
- To reduce SOEs power; open sectors to private business
- To simplify administration; reduce redtape; reinforce IP;
- Abolition of registered capital requirement for new firms
- Replace turnover tax by added value tax: good for SME
- Ambitious envnt targets: stricter emissions stds; heavier fines,
- To decentralize (delegate responsibility) & centralize procmt
- Set limits to government power; to apply the law

# But, developing entrepreneurship & innovation

- A challenge:
- Big Brother's increased intensity of control public criticism, activism and intellectual life; trend to tighten control over higher education (to give priority to "ideological loyalty to the P"; banning foreign textbooks); fear of a vacuum of trust; anxiety over the P's ability to control discontent; aggressive censorship (eg. Facebook, Twitter, VPN, Google...).
- The road to "the Chinese dream" toward "a moderately prosperous society; deepening economic reform; governing according to the law; and applying strictness and party discipline" is difficult: local resistance to central government directives, bureaucratic footdragging and opposition to administrative reforms.

## Developing entrepreneurship & innovation: opportunities

- Government realizes the great need for innovation and entrepreneurship:
  - Sharp decline of working population → forthcoming labor force bottleneck
  - End of cheap labor → **innovation** and **productivity**
- But private entrepreneurs need to be politically well-connected; to have access to funding by banks; an improved IP protection; an improved level playing field
- Innovation may be hampered by education system, by some traditional values (obedience, respect for authority, emotional control).
- But opportunities in: big data, "internet Things", cloud computing, high-tech, environment technologies, robotics, new energies, new materials, E-commerce...
- **Many opportunities** in a fast-changing environment driven by government reforms and initiatives; keen to walk the talk.

# The Corruption crackdown

## When discussing "corruption" with EMBA's (In 2010) <sup>(1)</sup>

- *It has always existed, even before Confucius: it is part of our history, of our culture*
- *It is a norm of reciprocity in a "gift-giving society"*
- *It does not hurt development (growth > 9%, 30y), Nothing is wrong with it: everyone does it, everywhere (e.g. business, hospital, university)*
- *It exists as well in EU or US: you call it « lobbying », « facilitating payment », « learning mission"*
- *It does not exist: it is a figment of the imagination (or a "hang-up") of the West*
- *It is a parallel income distribution system*

## When discussing "corruption" with EMBA's (In 2010)<sup>(2)</sup>

- *In China: there is no alternative (if you want to do business)*
- *It is very functional: it is the oil which makes the bureaucratic machine to work*
- *If I stop, my competitors won't; I will be penalized and soon out of business*
- *I do not call it corruption: it is just a transaction cost*
- *We do not do it, I have a Mr. Fix: he handles it very well*
- *We have a budget for it, we have small pockets for that*
- *In your country you give a tip, here we give a top: what's the difference?*

# 2005: the view of former Premier Wen Jiabao

(NPC speech, March 5th 2005, on the 11th 5-year plan, 2006-2011)

- "We will work hard to build *a clean government* and *combat corruption*. We will conscientiously carry out all tasks and measures for punishing and preventing corruption..."



# 2010: the view of former Premier Wen Jiabao

- “We will give high priority to fighting corruption and encouraging integrity. This has a direct bearing on the firmness of our grip on political power.” (Premier Wen Jiabao, March 2010, the National People’s Congress)
- In 2009, according to the Ministry of Supervision and the CCP’s Commission for Discipline, more than 100,000 officials were punished for corruption and 4.44 billion yuan (US \$650 million) were recovered. The number of officials arrested and punished for corruption involving more than 1 million yuan (US \$146,500) increased by 19 percent in the first 11 months of 2009 compared to the same period in 2008. At least 15 corrupt high ranking officials were punished, the highest in 30 years. (China Daily, 03/08/2010)

# 2014 - From Premier Li Keqiang (03/13/2014 at the

Press Conference after the 12th session of the National People Congress, Beijing)

- China will show "zero tolerance" to corrupt officials no matter "how senior his position is".
- "Corruption is a natural enemy of the people's government. We must put the exercise of power and the use of public money under institutional checks".
- "China is a country under the rule of law... everybody is equal in front of the law"

## 2014 – Xi Jinping (January 14, 2014, remark to the Communist Party's antigraft watchdog)

- "The anti-corruption situation remains grim and complicated, the unhealthy influence of the corruption problem is malignant and needs to be solved quickly with **drastic medicine**".
- "The Party must continue to beat **the tigers** and **the flies** together..."

# Government does react and is committed to action

Name	Position	Crime	Sanction	Date
Ji Jianye	Former mayor of Nanjing	Bribe-taking of 11.3 million yuan ( \$1.9M)	15 years imprisonment	April 7, 2015
LIAO Shaohua	a former provincial-level official in southwest China's Guizhou Province	Briber-taking of 13.2 million yuan and abuse of power	16 years imprisonment	Apr 9, 2015
NI fake	Former vice governor of Anhui Province	Bribe-taking of 13 million yuan (\$2 M)	17 years imprisonment	Feb 28, 2015
LIU Han	A former mining tycoon	Running mafia-like enterprises	Sentenced to death in May 2014	Executed on Feb 9, 2015
Li Daqiu	Former vice chairman of the Guangxi Zhuang Autonomous Regional Committee of the Chinese People's Political Consultative Conference	Briber-taking of 10.95 million yuan	15 years imprisonment	Oct 13, 2014
WANG Suyi	former United Front Work Department, Inner Mongolia	Briber-taking of 10.73 million yuan (\$1.7 million)	Life imprisonment	July 2014

# Xi Jinping's New Year speech (12/31/2014)

“... We will always resort to the anti-corruption drive as a sharp weapon, and consolidate mechanism-building as a cage to contain powers. In this socialist country led by the Communist Party of China, every corrupt official must be dealt with once evidence is found. There's absolutely no tolerance for corruption and graft.”

# “Tigers” caught

Name	Position	?
ZHOU Yongkang	a former member of the Politburo Standing Committee of the Chinese Communist Party	Dec 2014: arrested, expelled from party; Apr 3 2015: charged with bribery, abuse of power and leaking state secrets
LING Jihua	Former minister of the United Front Work Department	Dec 31, 2014: removed from the post
GU Junshan	Former deputy chief of the PLA's General Logistics Department	Apr 1, 2015: charged with corruption
XU Caihou	Former vice chairman of the Central Military Commission	Died of cancer on Mar 15, 2015
JIANG Jiemin	Former minister of the State-owned Assets Supervision and Administration Commission	Apr 13, 2015: went on trial on bribery charges
MA Jian	Former vice minister of state security	Detained in Jan 2015
LI Chuncheng	Former vice Party chief of Sichuan Province	Apr 23, 2015: went on trial on bribery charges and abuse of power

# Zhou Yongkang's spheres of influence

- Sentenced to death
- Jailed
- Arrested
- Under investigation



**Zhou Yongkang**



Zhou family assets seized:  
**90bn yuan** estimated  
(\$14bn, £8.5bn)



## NATIONAL POLITICS



■ Bo Xilai



Ex-Politburo member

*Life imprisonment  
Sep 2013*

■ Li Dongsheng



Ex-deputy security minister

■ Ji Wenlin



Ex-deputy Hainan governor

## OIL



■ Zhou Bin (Zhou's son)



Oil and gas exec

■ Li Hualin



Ex-national oil exec

■ Jiang Jiemin



Ex-national oil exec

## REGIONAL POWER



■ Liu Han



Mining tycoon

*Death penalty executed  
on Feb 9, 2015*

■ Guo Yongxiang



Ex-top Sichuan official

*Prosecution initiated on  
Mar 23, 2015*

■ Li Chuncheng



Ex-top Sichuan official

*On trial on Apr 13, 2015*

*On trial on Apr 23, 2015*

- “Since November 2012, five rounds of inspections have been conducted in the country's 31 provinces and regions, 39 central government ministries and authorities, large State-owned companies and leading universities to collect tipoffs about **alleged corruption.**” (Speech of Huang Shuxian, deputy secretary of the Communist Party of China's (CPC) Central Commission for Discipline Inspection (CCDI) at press conference summing up China's sweeping counter-corruption campaign on Jan 07, 2015)
- “A total of **71,748** Chinese officials were punished **in 2014** for violating the eight point anti-graft rules, offenders were involved in 53,085 violations and **23,646** had received serious party and government penalties.” (ibid)
- “China also **brought back from overseas** more than **500** fugitive corrupt officials and recovered more than 3 billion yuan (483 million U.S. dollars) in a campaign targeting those that had fled the country.” (ibid)



# The Corruption crackdown

- It has – currently – changed government officials' mindsets and behavior.
  - Curtailing of lavish entertainments (banquets ++), first class flights; luxurious office buildings; luxury items and gifts; golf games → impact on those industries
  - Pressures to avoid E-MBA courses and private executive education programmes → impact on business schools.
  - Many government officials sanctioned; will have to declare their personal assets → fear
  - Civil servants cut from access to "grey income" → some left the civil service; more suicides
  - Growing pains in policy implementation → officials feel insecure; civil service jobs are less attractive → as Party membership
  - But: reduces transaction costs for ordinary people (to get things done) → may improve Party's image.