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EDITORIALS

Further healthcare reform

VICE-PREMIER LI KEQIANG’S VISIT TO AIDS patients on Friday ahead of World AIDS Day on Dec 1 again shows the importance the government attaches to healthcare. With his long speech on healthcare reform published last week, Li has definitely tried to drive home a clear message that the Chinese government is resolved to realize a breakthrough in health-care reform for the benefit of the country’s 1.3 billion people.

However, there is a knotty problem that must be unravelled to successfully reform the country’s healthcare system. There is a large discrepancy between the cost of producing a drug and the price hospitals charge patients. Many people have also pointed their fingers at the large number of parasites, the drug representatives, who maneuver for the profits that are distributed among doctors, hospitals and themselves.

Investigations show that the retail price of an ordinary antibiotic injection can be 60 times its production cost, and for some drugs the mark up can be even higher.

A recent CCTV survey found that for the pharmaceutical product clindamycin the gross margin was as high as 2,000 percent in some locations.

As of 2001, all drugs have a price cap and the retail price of a drug can never be more than the capped price.

However, there is no transparency as to how these price caps are determined and the prohibitively high retail prices of most drugs suggest these cap prices are too high.

Transparency of the drug market is urgently needed if drug prices are to be reduced to a reasonable level.

We need to know how the whole drug mechanism operates, how many drug representatives there are lubricating the channels so that certain drugs are sold in hospitals, and how much doctors and hospitals make from selling these drugs.

Only by getting a complete understanding of the tacit rules that enable drug representatives, doctors and hospitals to line their pockets will policymakers be able to decide how the drug supply system can be reformed so that patients benefit.

The government recently announced it will carry out pilot schemes in public hospitals to test the feasibility of separating medical treatment from pharmaceuticals, so that drug sales are not linked to a hospital’s revenue and doctors prescribe with respect to the patient’s condition rather than trying to fatten their wallets.

But it is wishful thinking to believe that a government crack-down alone will be able to clean up the market and that a direct supply of drugs by the manufacturers to hospitals will lead to lower retail prices, unless policymakers consider doctors’ salaries and supervision over prescriptions.

Policymakers should face the tacit rules that govern the drug market when coming up with reforms to separate medical treatment from pharmaceuticals, and abolish the model of maintaining hospitals by selling drugs.

Cyber cooperation needed

THE UNITED STATES CONTINUES TO BLAME China for alleged intrusions into US government and defense industry computer networks.

This month a report released by the Project 2049 Initiative, a US-based think tank, details China’s signals intelligence organization, and what role it thinks the People’s Liberation Army has in collecting cyber intelligence.

And last month, a draft report by the US-China Economic and Security Review Commission claimed that cyber hackers “achieved all the steps required to command” a US satellite and claimed the techniques of the hackers “appear consistent with authoritative Chinese military writings.”

In the court of public opinion, the US has managed to successfully portray itself as the main victim of cyber attacks.

But it is no secret that the US has already developed an information warfare doctrine and has capability to make cyber attacks on other nations.

Just before the US-led air strikes in Libya in March, the Obama administration intensely debated whether to start a cyber offensive to break through the firewalls of the Libyan government’s computer networks to sever military communications links.

In the end, US officials decided not to launch a cyber offensive, supposedly for fear that it might set a precedent for other nations to carry out such offensives of their own.

The US military is clearly capable of conducting offensive operations in cyberspace at any time and against any country.

The Pentagon’s pre-emptive strategy in responding militarily in cyberspace is aimed at preserving the US’ dominance over cyberspace, regardless of its own threat to other sovereign states.

But Washington’s excessive emphasis on absolute cyber security and concerns about China’s growing cyber threat might lead to misjudgments and hostilities.

With both state actors and non-state actors joining the cyber game, the risks of miscalculation between states will increase, especially if a non-state hacker can infiltrate a country’s military networks and launch an attack against another country.

The global nature of the Internet means that cyber attacks can originate from a hacker anywhere in the world.

Without universally acknowledged rules, cyberspace is still a field where the law of the jungle prevails.

Therefore, both China and the US should exchange strategies and information to jointly combat profit-driven cyber crimes, which account for 80 percent of all reported global cyber incidents.

With regard to cyber attacks which might trigger unintended cyber conflicts or even larger conflicts among states, China and the US should strive to build greater mutual trust by communicating more closely, especially in cases of an emergency, so as to avoid being precipitated to the point of a cyber conflict or even devastating military clashes.

CHINA FORUM | WU JIANGANG

Return to reason for real estate

The bubble has done much harm to society but government efforts to curb the hike in house prices appear to be working

There may have been doubts there was a real estate bubble in China a few years ago, but it is obvious now.

The average house price has tripled between 2005 and 2009. In some cities like Shanghai and Beijing, house prices increased by more than 40 percent in 2009 alone, and an additional 30 percent in 2010. The prices in both cities are now ridiculously high, while the rent to price ratio is much less than the deposit rate and the average family needs to work decades to afford a small apartment.

A real estate bubble is not only an economic problem, but also a social disease that can do a great deal of harm and a ticking economic time bomb.

First, it causes unfairness. A rapid increase in house prices means the wealthy and those who were fortunate enough to buy apartments early can accumulate a fortune, while others cannot afford a property any more.

Second, it causes a prevalence of speculation and decline in entrepreneurship. Investing in real estate becomes so profitable that people indulge in speculation rather than manufacturing.

Third, the distorted house prices send the wrong signals, which cause the real estate industry to be inefficient and concentrate too many resources in the industry.

Finally, a real estate bubble increases

living and production costs, which decrease consumption and cut cities’ competitive advantages.

So what are the risks if a bubble bursts? Traditionally, when a real estate bubble bursts, the value of property decreases but not the level of debt, which may cause families and banks to go bankrupt and then cause financial crises. But what happened during real estate crises in other countries, such as the 2007 subprime crisis in the United States, is not likely to happen in China. Compared with US home owners, Chinese owners will not go bankrupt since they have higher down payment rates and do not consume more along with the increased value of their property. And banks will be safer too, since house prices have increased so fast that most loans were offered when the prices were still low.

Will the bursting of China’s bubble affect local governments? Not really, in 2009 and 2010, in order to tackle the financial crisis, local governments had a heavy deficit, but according to data from the National Audit Office, at the end of 2010, the debts of local government financing platforms were 10.7 trillion yuan (\$1.68 trillion) and the loans are basically guaranteed by the expected returns from land sales. The fiscal deficit and debt balance are reasonable and controllable proportions of the GDP.

In fact, the government can help burst the bubble slowly and control some of the risks.

After two years of regulations aimed at trying to cool the property

market, some cities in China finally seem to be experiencing a slowdown. While some speculators and developers still expect efforts to curb the bubble to fail, many are seriously preparing to fight for their survival, as demand for apartments has been falling across the country following the government’s ban on the purchases of a second property, increased minimum down payments, increased mortgage rates, and trial property taxes. At the same time, due to the tight monetary policy, developers are finding it difficult to access additional loans at a time when a sharp drop in real estate transactions means they have less working capital. Some realty brokerages across China have closed hundreds of offices, and some developers are starting to show signs of being bankrupt.

Premier Wen Jiabao said in Moscow recently that the tightened real estate regulations will not waver and the government aims to lead housing prices back to a reasonable level. While it is the third time in a month that Wen has expressed the government’s determination to continue with its efforts to cool the market, it is noticeable that this is the first time in years that the government has shifted from “curbing excessive growth in property prices” to “bringing prices down to a reasonable level”.

This change seems sudden but is actually not surprising, considering that there will be a transition of leadership in the State Council in 2013 and the current government needs to pave the way for the next govern-



A real estate bubble is not only an economic problem, but also a social disease that can do a great deal of harm and a ticking economic time bomb.

ment. Among three highly anticipated reforms, reform of the political system, reform of State-own firms and reform of the real estate industry, the latter may be the easiest.

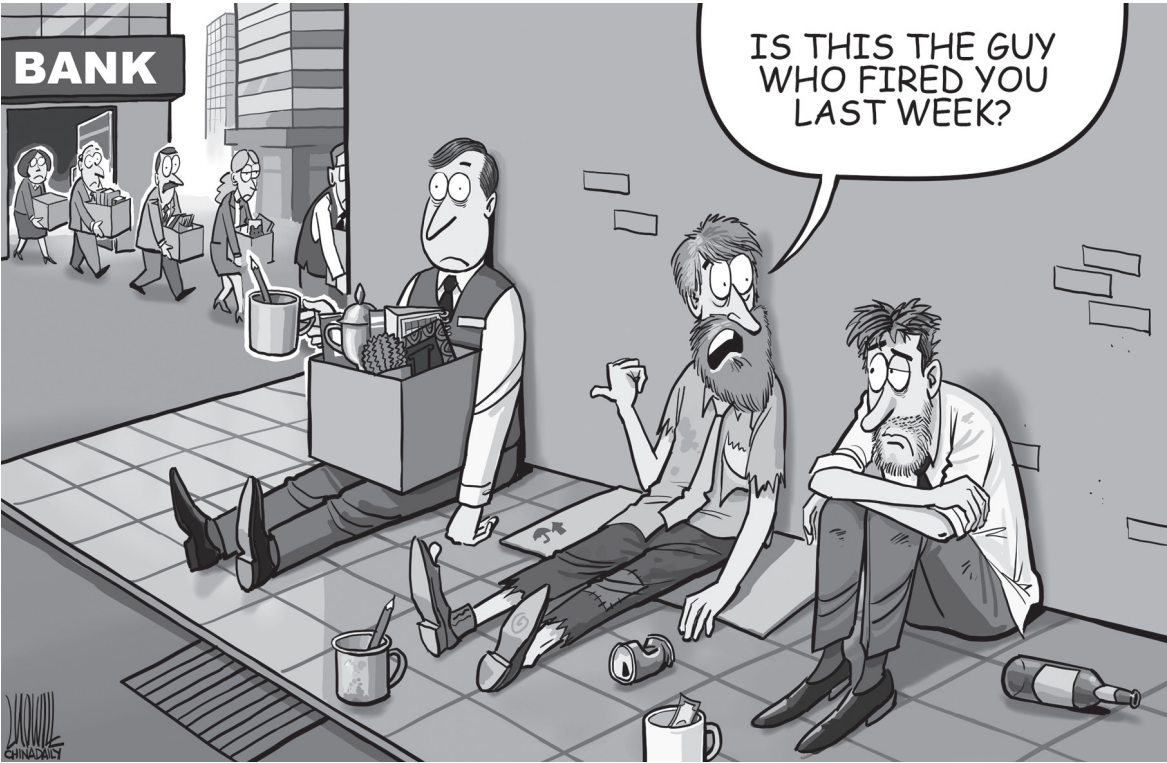
In the short run, the government should stick to the current policies. It seems that the current tight monetary policies are resulting in continued expectations for lower prices. Purchase limits in some cities are only temporary measures and will phase out after a national database on individual property ownership is established, which will pave the way for introducing property tax in more cities. China is also aiming to construct 10 million affordable housing units this year, of which 98 percent had commenced construction by the end of September, according to the Ministry of Housing and Urban-Rural Development.

In the long run, there are three factors that will prevent the real estate bubble from expanding. First, monetary policy should go back to neutral, which means the central bank could loosen the interest rate policy. Second, the land exchange system should be more market-driven. Third, the government should continue to discourage speculation and increase construction of social housing.

Although the real estate bubble in China has caused much harm to society, there is still a chance to deal with it before it does even more damage. Considering the records of failure of past policies, the government should remain firm and not loosen its current policies.

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LUO JIE



CHAN KWOK-BUN

Tyranny of parents’ great expectations

There is a very powerful text by author Walter Benjamin, written when he was a young university student, in which he indicates the belief of ‘elderly wisdom’, a belief that is particularly dominant in Chinese culture.

This belief presupposes that wisdom, as a reservoir of experiential knowledge, is directly proportional to one’s age — the older one is, the wiser. Wisdom, it proposes, is accumulated over time, so age is determinative of its depth. Hence the endless maxims parents tell their children, such as “I don’t want you to repeat my mistakes” and “I’ve eaten more salt than you’ve eaten rice”. There is an entire constellation of such declarations, each of which reinforces the hierarchical divisions between the old and young, mother and child, teacher and student.

Last year, The South China Morning Post in Hong Kong ran a brief interview with students on a

mainland university campus about their opinions on social issues. The responses were cursory, but revealing, as the common denominator was: examinations are more frequent now; the competition for grades is more intense, how can we find the time to discuss social issues?

Tiger mother Amy Chua, who set off a global discourse on Chinese parenting when she publicized the strict way in which she brought up her children, would no doubt ask the same question.

It is a question that encapsulates our predicament. It points to the fact that choosing to be socially conscious and committed requires the luxury of time, which means not devoting every waking hour trying to get ahead, as to take one’s time means falling behind in the rat race.

In today’s society this amounts to nothing less than a forced choice and the domination of the reality principle — ‘that’s life’. For while abstract

concepts such as equality, justice and happiness are desirable there are now greater tangible incentives to forcing one’s way through the crowd on the treadmill.

Schools — and families, for that matter — have thus become a rite of passage, an apprenticeship that instructs children in the application of techniques and skills that initiate them into the cabals of the professional world. To enter a university these days is to submit to a mandate, one that requires students to live in fidelity to a choice. This choice is crucial because it marks a point of no return. It is the acceptance of the need to work. What is a diploma, if not the passport to a career? But every university graduate has this verification of his fitness for work, so no time can be lost in trying to stay ahead of the competition.

My difficulty with the Tiger Mother recipe for bringing up children is that it eliminates and denies

alternatives and options. As early as primary school, a Chinese child is expected to aspire to a profession that offers good rewards, whether that be medicine, law, engineering, computing, business or accounting. Unless the child has an extraordinary amount of initiative and bravery, activities that do not help the child achieve this goal are minimal. This is compounded by standardized examinations that cultivate a climate of continuous anxiety and mutual suspicion and the never-ending need to curry favor with teachers and ‘make connections’. In this way children are continually faced with the imperative to stay ahead or catch up.

Can our children escape from this tyranny? This is a question that involves us all.

Chinese mothers know best? Ask the child, please!

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