

Mergers (1)

Partly cloudy

The merger of Dell and EMC is further proof that the IT industry is remaking itself

“THIS is the new normal,” extolled a visibly excited Andy Jassy, the boss of Amazon Web Services (AWS), as he reeled off one new service after another at a corporate bash on October 7th in Las Vegas. AWS is Amazon’s cloud-computing arm, delivering all manner of services that are hosted in data centres and delivered over the internet. The offerings highlighted by Mr Jassy included something called Snowball, a suitcase-sized box packed with 50 terabytes of digital memory, a dozen of which could hold the entire library of Congress. Firms can use the device to transfer mountains of data to AWS’s cloud in one fell swoop. Such snowballs, AWS hopes, will turn into a digital avalanche to fill up even more Amazon data centres.

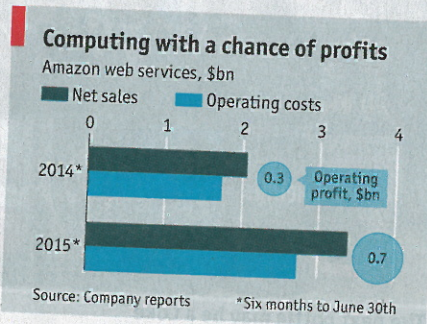
As the operator of the world’s biggest e-commerce site, Amazon has lots of experience running huge computer systems. In 2006 it launched its cloud as a separate business. Today AWS offers hundreds of different services, from raw number-crunching and data storage to encryption and machine learning. It claims more than 1m customers, from the tiniest startups to titans like General Electric.

How big Amazon’s cloud has become is a well-kept secret. In Las Vegas Mr Jassy said that AWS now has 50 “points of presence” (which may mean big data centres) worldwide and presented many charts showing triple-digit growth, but was silent

on absolute numbers. But Amazon has recently started to release financial results for its cloud-computing business which look very promising (see chart).

The new normal feels more threatening if you are one of the old guard. The shift to the cloud is the biggest upheaval in the IT industry since smaller, networked machines dethroned mainframe computers in the early 1990s. At the same time as Mr Jassy was tub-thumping in Nevada, Michael Dell and Joe Tucci, the chief executives of Dell and EMC, big makers of computers and digital storage devices respectively, were hammering out their own response to this changing landscape.

The agreement that they announced on October 12th, whereby Dell will acquire EMC for \$67 billion, is the biggest technology deal ever, adding to a wave of mergers across many industries (see next article). It



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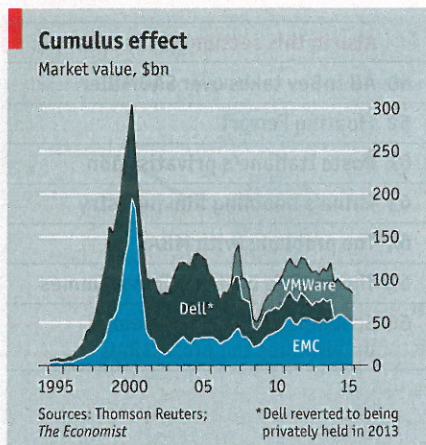
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can still be called off if another suitor for EMC emerges, but that looks unlikely. Activist investment funds led by Elliott Management, which has a 2.2% stake in EMC, had been pushing the firm to boost its share price. Elliott, which stands to make a profit of more than 20% on the deal, has said it “strongly supports” the merger. Around \$45 billion of debt financing, which Dell and its partner Silver Lake, a private-equity firm, need to complete the takeover, is securely in place.

The deal is not without risks, however. The big debt load is one, although Dell has been successfully paying back money it borrowed for its own 2013 buy-out. The task of integrating the two firms will be another challenge, as Meg Whitman, the boss of HP, a rival member of the tech old guard, was quick to point out.

Dell and EMC have long been cognisant of the disruption around them. Mr Dell, who founded his firm in 1984 in his college bedroom, where he built personal computers (PCs) from off-the-shelf parts, took it private in 2013; he wanted to be able to lead it through its transformation without the distractions of quarterly results and activist investors. (This transaction partly reverses that decision thanks to a bit of financial engineering involving VMware, a listed software firm in which EMC holds a large stake: as part of the deal, EMC shareholders will get about a tenth of a share of a new VMware “tracking” stock, which will be issued by Dell’s holding company.)

Mr Tucci, for his part, has shown a knack for buying firms that sell key components for cloud computing—and then leaving them alone. The most prized asset in EMC’s loose “federation” of firms is VMware, whose “virtualisation” software makes data centres more efficient by spreading work around servers.



▶ Yet both Dell and EMC are still dependent on the businesses that first made them big. Since Dell no longer publishes financial results, it is hard to know what exactly is going on. But analysts say that despite a push into selling more corporate technology, such as servers and storage devices, Dell still relies for the majority of its revenues on PCs—a business which continues to decline as a result not just of cloud computing, but the rise of smartphones. Global PC shipments fell by nearly 8% in the third quarter, compared with the same period a year ago, according to Gartner, a research outfit.

EMC's mainstay, digital storage devices of all kinds and related software, is still growing, but not as fast as it used to—because many firms now opt to store data in the cloud or to buy cheaper gear from competitors. Early in this decade storage sales increased by double digits annually, a rate that dropped to 2% last year. As part of the announcement of the merger, EMC released quarterly results that came in below financial analysts' expectations.

All of which helps to explain why Messrs Dell and Tucci are keen to merge their companies. The deal, says Steven Milunovich of UBS, a bank, will strengthen Dell's business of selling computing infrastructure to companies rather than PCs, and also gel with another development in the IT industry: converged hardware. Traditionally, servers, storage devices and networking equipment have been bought separately. Now they are being increasingly offered in integrated bundles by one vendor, sparing customers the tedious task of making them work together smoothly—a trend that has been pioneered by EMC in a joint venture with Cisco, a big maker of networking gear.

The next step, which some big cloud operators that make their own machines are already taking, is to merge the different components in basic computers and have software turn them into servers, storage devices or routers as needed. Dell, which excels at making commodity hardware, seems to hope that it will be able to sell

such converged devices to firms that want to build their own "private" clouds, and perhaps even to big cloud providers, many of which now have contract manufacturers put together their hardware.

A broader question is whether the merger will trigger a flurry of other deals. The deconstruction and reconstruction of the IT industry has already begun, even if full-scale consolidation is not imminent. HP has already made the decision to split itself in two on November 1st. Earlier this year Oracle was mentioned as a potential buyer of Salesforce.com, a big provider of web-based business software.

If history is any guide, the industry's old leaders won't be its new ones. Of the proud mainframe companies, after all, only IBM and SAP still stand tall. Even after the merger, it is not assured that Dell will remain in the top league. So far, the only firm from the old guard that seems certain to keep a spot is Microsoft, which has managed to build a sizeable cloud business called Azure. Google, another big cloud provider, also seems likely to be among the new IT kingpins. But the biggest cloud of all belongs to Amazon—which looks ever more likely to be the new top dog of the tech pack. ■

Mergers (2)

The beerhemoth

NEW YORK

SABMiller is AB InBev's toughest takeover yet. It may not be its last

THE battle lasted one tumultuous month. In September SABMiller, the world's second-largest brewer, said it was the target of a takeover by its bigger rival, AB InBev. There followed a volley of bids, skirmishes in the press and tense private talks: between them, the firms' main shareholders include a big tobacco company, the dashing scion of Colombia's richest family and three Brazilian billionaires, not to

mention South Africa's public-investment fund. On October 13th, one day before a deadline mandated by British takeover rules (SABMiller is listed in London), the companies announced a tentative deal.

If it is completed, the £69 billion (\$106 billion) merger would be the third-largest in history. The combined brewer would earn about half the industry's profits and sell one in three pints worldwide. But agreeing on a deal price was, in relative terms, straightforward. Executing the merger, let alone running the resulting behemoth, will be more difficult.

It is little surprise that AB InBev got an agreement. Its history is one of voracious acquisition. In 1989 the three founders of 3G, a private-equity outfit, invested in a middling Brazilian brewer. That firm then guzzled bigger rivals on three continents to become the world's largest beer company. AB InBev has also been feeling parched recently. Consumers in many big markets are switching beverages. When they do drink beer, they are increasingly choosing "craft" brewers. Last year beer volumes in America stayed flat, but craft brewers saw volume hop up by 18%. AB InBev's share of America's beer market sank from 50% to 45% over the past five years, according to Euromonitor, a research firm.

The acquisition of SABMiller offers a quick way to reach new markets: the firm earns 29% of its profits in Africa, for instance, where AB InBev does little business. An acquisition would also let the famously frugal AB InBev unleash its cost-cutters on another company.

Yet many steps remain before the deal is done. Under the terms outlined this week, AB InBev would pay a mix of cash and shares to SABMiller's biggest stockholders—Altria, a tobacco firm, and Colombia's Santo Domingo family—to help them avoid a hefty tax bill. Other investors would receive £44 a share, 50% more than they were worth a month ago. AB InBev now has until October 28th to pore over SABMiller's books and finalise its bid.

It will take much longer to win regulators' approval. Antitrust concerns may force AB InBev to sell SABMiller's stake in ▶



The next bottle may be a Coke



Little match children

BEIJING

Children bear a disproportionate share of the hidden cost of China's growth

TOWARDS the end of "Jude the Obscure", Thomas Hardy's final novel, comes one of the most harrowing scenes in English literature. Jude, an itinerant labourer struggling to feed his family, returns home to find his eldest son has hanged himself and his younger siblings from the coat hook on the back of the door. A note says "Done because we are too menny."

In June this year China suffered a real-life variant of this terrible scene. In a rural part of Bijie township in Guizhou province, in south-west China, a brother and three sisters, the oldest 13, the youngest five, died by drinking pesticide. They had been living alone after their mother had disappeared and their father had migrated for work. The 13-year-old boy left a note saying, "It is time for me to go—death has been my dream for years."

Three years before that, also in Bijie, five street children died of carbon-monoxide poisoning after they had clamored into a roadside dumpster and lit charcoal to keep themselves warm. Chinese social media drew parallels with the little match girl in Hans Christian Andersen's story of that name: afraid to return home because she has not sold any matches, she freezes to death in the winter night, burning match after match because the light reminds her of her grandmother. It is a well known tale in China because it is taught in primary

schools as an example of the uncaring nature of early capitalism.

Over the past generation, about 270m Chinese labourers have left their villages to look for work in cities. It is the biggest voluntary migration ever. Many of those workers have children; most do not take them along. The Chinese call these youngsters *liushou ertong*, or "left-behind children". According to the All-China Women's Federation, an official body, and UNICEF, the UN organisation for children, there were 61m children below the age of 17 left behind in rural areas in 2010. In several of China's largest provinces, including Sichuan and Jiangsu, more than half of all rural children have been left behind (see map on next page). In effect, some villages consist only of children and grandparents. This is a blight on the formative years of tens of millions of people. Alongside the expulsion of millions of peasants from the land they have farmed and the degradation of the country's soil, water and air, this leaving behind is one of the three biggest costs of China's unprecedented and transformative industrialisation.

Just over half of the 61m counted in 2010 were living with one parent while the other spouse was away working; 29m had been left in the care of others. Mostly the carers were grandparents, but about 6m were being looked after by more distant

relatives or by the state (that number includes orphans and children with disabilities who have been abandoned). There were 2m children who, like the little match children of Bijie, had been left just to fend for themselves.

Not all parents who up sticks to look for work leave their kids behind: in the 2010 figures 36m children had gone to live with their migrating families in cities. But this has its own problems; very few of these children can go to a state school or see a state doctor at subsidised prices in their new homes. Moreover, their hard-working parents often cannot look after the children. Without grandparents or a state school to keep an eye on them, such migrant children can be just as neglected as those left behind in the country.

A damaged generation

On top of that there were about 9m left behind in one city when one or both parents had moved to another. Add it all up and, in 2010, 106m children's lives were being profoundly disrupted by their parents' restless search for jobs. For comparison, the total number of children in the United States is 73m. And the proportion of these children who were left behind, rather than migrating with their parents, grew a great deal in the late 2000s (see chart 1 on next page).

The experience of those left with one parent while the other is away working is perhaps not so different from that of the children of single parents in the West. But a study by a non-governmental organisation, called the Road to School Project, reckons that 10m left-behind children do not see their parents even once a year and 3m have not had a phone call for a year. About a third of left-behind kids see their parents ►►

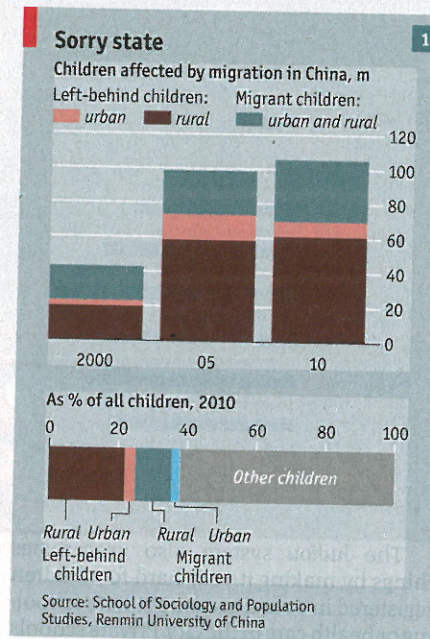
only once or twice a year, typically on Chinese New Year.

Though any child may be left behind, there are some patterns. The youngest children are the most likely to be left, and girls are slightly more likely to be left than boys. This preference for taking boys along means that in cities the preponderance of boys over girls that has been produced by sex-selective abortions is exaggerated further. Anecdotal evidence suggests that an unusual number of left-behind children have siblings. One reason for this is that China's one-child policy has been implemented less strictly in the countryside, and so more rural families have two children to leave behind.

It is not yet possible to say whether the phenomenal level of leaving behind found in the late 2000s persists. There is some evidence that with the slowdown in the economy migrant labourers are starting to drift back to their villages. But even if the trend has slowed, the dislocation still represents a third blow to the traditional Chinese family. First came the one-child-policy. Then the enormously distorted sex ratio. Now a mass abandonment.

Being left behind damages children in many ways. In Cangxi county, Sichuan province, in south-west China, the local education authority (as part of a study) gave eight- and nine-year-old left-behind children video cameras and taught them to film their lives. Sun Xiaobing, who is eight years old, is in the charge of her grandparents, but she is left alone for days on end. She shares her lunch with a stray dog to attract its companionship. Her two days of video consist almost entirely of her conversations with farm animals; she has no one else. Wang Kanjun's film is about his little sister. The five-year-old girl spends most of her time at home playing with the phone; she is waiting for her mother to call.

Most left-behind children are lonely. Many live in rural boarding schools far from their villages because, in an attempt to improve educational standards in the



countryside, the government shut many village schools down in favour of bigger institutions. About 60% of children in the new boarding schools have been left behind. A non-governmental organisation, Growing Home, surveyed them this year and found that they were more introverted than their peers and more vulnerable to being bullied; they also had "significantly higher states of anxiety and depression" than their peers. Many say they do not remember what their parents look like. A few say that they no longer want to see their parents.

In 2010 researchers at the Second Military Medical University in Shanghai studied over 600 children in 12 villages in Shandong province, in the north-east, half left behind and half not. The difference in the physical condition of the children was minor. But the difference in their school performance was substantial and so was the emotional and social damage to them, as measured by a standard questionnaire (see

chart 2 on next page). "The psychological effect on left behind children is huge," argues Tong Xiao, the director of the China Institute of Children and Adolescents. "The kids will have big issues with communications. Their mental state and their development might suffer."

Being brought up by grandparents is a common experience worldwide, and by no means necessarily harmful. But China's rapid development does make it more of a problem now than it was in the past. Unlike their parents, the left-behind children's grandparents are often illiterate; their schooling can suffer accordingly. According to the All-China Women's Federation, a quarter of the grandmothers who are looking after small children never attended school. Most of the rest had only primary education. In one school in Sichuan visited by Save the Children, an international charity, an 11-year-old girl spent most of the lesson caring for her infant sister. As the visitors started to leave, though, she ran up and begged them to look at her homework: she seemed torn between being *in loco parentis* and a normal 11-year-old.

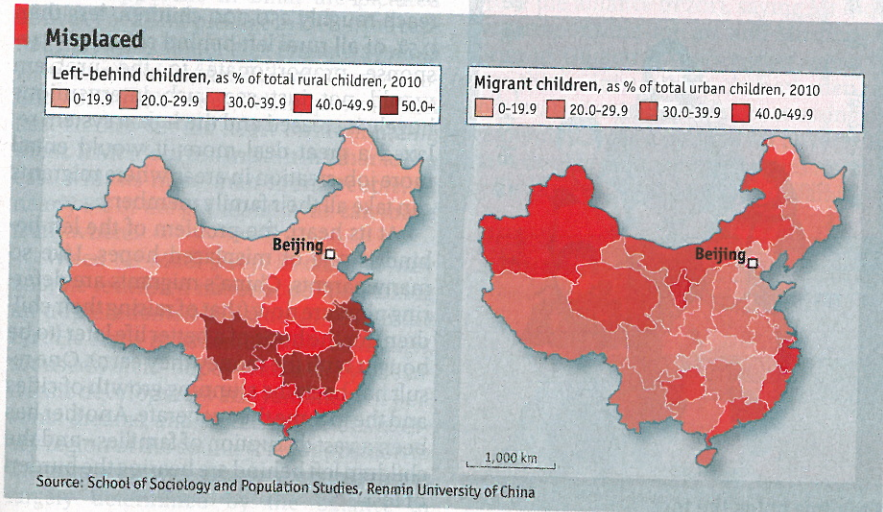
There are few studies of the health of left-behind children. But given that they account for almost half of all rural children, rural health indicators are a proxy. These are worrying: 12% of rural children under five in China are stunted (ie, are short for their age)—four times as many as in urban areas; 13% of rural children under five are anaemic, compared with 10% for urban children.

Little father time bomb

Breastfeeding rates in China are low; only two in seven Chinese children are exclusively breastfed at six months, compared with half in South-East Asia and two-thirds in Bangladesh. Part of the explanation must be that so many infants are brought up by grandparents. International studies show that breastfeeding during a child's first 1,000 days has lifetime benefits. Children who are not breastfed or get poor food early on do worse at school, are more likely to suffer from serious diseases and have worse job prospects.

Lastly, left-behind children are vulnerable to sexual and other abuse. Back in Bijie, two more left-behind children were found dead in August. One, a disabled 15-year-old girl, had been repeatedly raped by two of her distant relatives. Fearing discovery they had murdered both her and her 12-year-old brother.

Child abuse is distressingly common anyway. An analysis of 47 studies in Chinese and English this year estimated that over a quarter of Chinese children are physically abused at some point in their lives. The left behind are among the most vulnerable to such abuse, especially those in boarding schools, because any adults who might speak up for them are far away. ▶



▶ In May a teacher in one such school in Gansu province in the north-west was executed for abusing 26 primary-school students. In Ningxia province in June, a teacher got life in prison for raping 12 of his pupils, 11 of whom had been left behind.

Those left behind can be perpetrators of crime as well as victims. Earlier this year a prostitution ring was broken up in Macao. The alleged ringleader turned out to be a 16-year-old boy from Chongqing. Juvenile offences are rising in China, which may well in part be because of the increased numbers of left-behind children. Two-thirds of all Chinese juvenile offenders came from rural areas in 2010, up from half in 2000. When they are brought before the law, left-behind or migrant children are much more likely to go to jail than other children because courts are reluctant to grant probation in the absence of a guardian. In Shanghai, the children of migrant labourers get probation in only 15% of cases, compared with 63% of cases involving local juveniles.

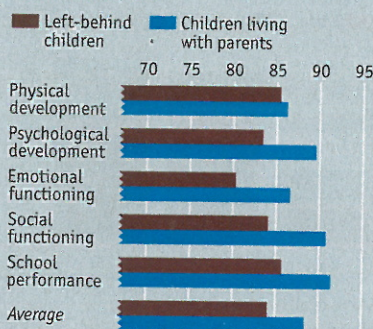
Given the harm that being left behind does to children's health, education and emotional development, it is not hard to imagine that the damage will be felt not just by the left-behind themselves but by society as a whole. The phenomenon is sufficiently recent that there is little compelling evidence of increased criminality, anti-social behaviour and so on. And adding to the burdens of the left-behind by pre-judging them to be miscreants would clearly add injustice to injury. But in other countries—South Africa, where apartheid often broke families up, is one example—being left alone has been found to be a risk factor in children turning to crime.

Leaving such broader consequences aside, the decision to leave behind a child is a hard one. Why do so many migrants make it? A survey by the Centre for Child Rights and Corporate Social Responsibility, an NGO, put the question to 1,500 workers in the Pearl River Delta in the south and Chongqing in the south-west. Two-thirds said they would not have enough time to look after them while working in the city; half said it was too expensive to bring up children there.

The long established and valued role Chinese grandparents play in bringing up grandchildren doubtless makes the decision easier for many. And if grandparents are the solution, then leaving behind is a necessary corollary. In principle migrants might take along their grandparents rather than leaving behind their children. But the restrictions of the *hukou* system make that almost impossible. The *hukou* or household-registration document is a bit like an internal passport, giving people access to various services. When registered in the country, grandparents get a lower pension than urban dwellers—and the money is not enough for them to live in the city.

Worse all round

Mean scores on health-related quality of life indicators*, 2010



Source: Second Military Medical University, Shanghai

*Sample of 640 8-14-year-olds in Shanting, Shandong Province

The *hukou* system also exacerbates things by making it very hard for children registered in a rural area to get state schooling or health care in the city. Private schools that exploit the opportunity this presents are often crowded, substandard and constantly threatened with closure by city governments. On top of this vital school-leaving exams have to be sat where a child is registered. So even if children accompany their parents to the city, they are almost always sent back again at the age of 14 to prepare for the exam.

Wanted: several million social workers

Millions of parents defy the *hukou* system; less than a third of those questioned in the Pearl River Delta survey cited it as an issue. The objective problems of city life are harder to ignore. Many migrant labourers work 12 or more hours a day on construction sites or in export-oriented manufacturing companies. They may commute for four hours more; they may live in dormitories with no provision for children, or



Grandma holds the fort

where children are not allowed. Understandably, most fear that they will not have enough time to look after their kids.

Zhao Yanjun, who is from Anhui province in eastern China but works in Fujian province most of the year, sums up the problems: "I'm really torn about this. I could go back [to Anhui] but I won't have the opportunities and connections I have here. If I bring my son and my wife [to Fujian], one of us will have to quit to look after him, or we'll have to hire a nanny or bring his grandparents here. Any of these choices would be a heavy burden for us."

Reform of the *hukou* system—already under way, in a piecemeal fashion—can address some of the problems of the left-behind and those who leave them. But given the underlying factors at work a full response will require China to build a child-welfare system almost from scratch.

China's government long assumed that the family would look after children's needs, so no child-welfare system was needed. As recently as 2006, there was no nationally recognised qualification for social workers. To its credit, the government has started to make up for lost time. It has set up a pilot programme to train "child-welfare directors", otherwise known as barefoot social workers, in five provinces.

The social workers are a bit like China's barefoot doctors: villagers trained in a few simple skills to take the social-welfare system into remote villages. Each looks after between 200 and 1,000 children. So far, the results of the pilot projects are promising. In 120 villages more than 10,000 extra children were enrolled in the state medical scheme between the start of the programme, in 2010, and 2012. The share of children who had not been registered under the *hukou* system and were therefore not eligible for help fell from 5% to 2%. The school drop-out rate fell by roughly the same amount. The government is expanding the pilot programme into three more provinces and twice as many villages.

But this only scratches the surface. Even in its expanded form the programme will reach roughly 250,000 children, less than 0.5% of all rural left-behind children. A response proportionate to the problem would not just see such interventions hugely increased and the *hukou* system relaxed a great deal more; it would entail more job-creation in areas where migrants can take all their family members.

At its heart, the problem of the left-behind is one of misplaced hopes. Like so many parents, China's migrants are deferring pleasure now (that of raising their children) for the hope of a better life later (to be bought with the money they earn). One result has been the stunning growth of cities and the income they generate. Another has been a vast disruption of families—and the children left behind are bearing the burden of loss. ■

Cloud computing

The sky's limit

Shifting computer power to the cloud brings many benefits—but don't ignore the risks



ELECTRICITY was once generated where it was used; now it comes from the grid. So it is with computing power, once the province of mainframes and personal computers, and now moving into the “cloud”—networks of data centres that use

the internet to supply all kinds of services, from e-mail and social networks to data storage and analysis.

The rise of cloud computing is rapid, inexorable and causing huge upheaval in the tech industry. The old guard is suffering: this week's \$67 billion merger between Dell and EMC, makers of computers and storage devices respectively, was a marriage forced by the rise of the cloud (see page 59). Disruptive newcomers are blooming: if Amazon's cloud-computing unit were a stand-alone public company, it would probably be worth almost as much as Dell and EMC combined.

The gains for customers have been equally dramatic. Compared with older IT systems, cloud computing is often much cheaper. It adds tremendous flexibility: firms that need more computing capacity no longer have to spend weeks adding new servers and installing software. In the cloud they can get hold of it in minutes. Their applications can be updated continually, rather than just every few months. Individual users can reach their e-mails, files and photos from any device. And cloud services also tend to be more secure, since providers know better than their customers how to protect their computing systems against hackers.

But cloud computing makes one perennial problem worse. In the old IT world, once a firm or a consumer had decided on an operating system or database, it was difficult and costly to

switch to another. In the cloud this “lock in” is even worse. Cloud providers go to great lengths to make it easy to upload data. They accumulate huge amounts of complex information, which cannot easily be moved to an alternative provider.

Cloud firms also create a world of interconnected services, software and devices, which is convenient but only for as long as you don't venture outside their universe. Being locked in to a provider is risky. Firms can start to tighten the screws by increasing prices. If a cloud provider goes bust, its customers may have trouble retrieving their data.

These risks have already triggered a debate about whether the cloud needs stricter regulation. Some European politicians want to force cloud providers to ensure that data can be moved between them. That is too heavy-handed, not least because rigid rules will inhibit innovation in what is still a young industry. The history of computing suggests that common standards may well emerge naturally in response to customers' demands—just as in personal computers, where it is now much easier to use the same files on different systems.

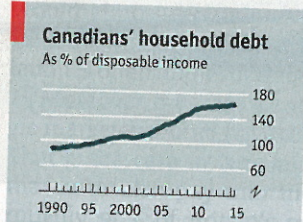
Be quick, be nimbus

In the meantime, a few commonsense measures can reduce the risk of lock-in. Firms that use more than one cloud provider to host their data are less vulnerable. So are those that keep their most important information in their own data centres—General Electric jealously guards its most valuable data, Walmart has a phalanx of its own developers so that it can move its data from cloud to cloud. Consumers can take precautions, too. Some services are better than others at enabling users to move data between providers (Google does well on this score). Cloud computing promises its users many benefits, but don't mistake it for some sort of digital heaven. ■

Canada's election

Living dangerously

The next prime minister will have to deal with a shaky economy



CANADIANS are not a people of excess. “Why did the Canadian cross the road? To get to the middle,” they joke. Temperance served them well during the global financial crisis. While property bubbles burst from Miami to Malaga and governments bailed out the banks that had puffed them up, Canada's prudent financial institutions carried on, largely unaided by the taxpayer. Its economy recovered quickly, helped by higher prices for oil, one of its main exports.

But something unCanadian has been happening of late. While consumers in post-bubble economies have been working off debt, Canadians have been piling it on. Consumer debt

is a record 165% of disposable income, not far from the level it was in America before the subprime crisis. Most of that borrowing has been spent on houses. Canadian housing is now 34% pricier than its long-term average, when compared with disposable incomes.

The housing bubble has not figured much in the campaign leading up to Canada's election on October 19th (see page 39). That is not surprising. None of the three contenders to be prime minister—Stephen Harper, a Conservative who currently holds the job; Justin Trudeau, leader of the centrist Liberal Party; and Thomas Mulcair of the left-leaning New Democrats—wants to tell voters that their houses are probably worth less than they think. Yet the winner may well have to deal with the consequences of a housing and debt bust.

Canada has already flirted with recession this year. The ►►

SYMPOSIUM

The Concept of 'Merit' in Australia, China and Taiwan

Andrew Podger

Australian National University

Hon Chan

City University, Hong Kong

The article provides a description of Australian approaches to 'merit' and an overview of the other symposium articles on the application of merit in China and Taiwan. The term 'merit' is commonly used in Australia, China, and Taiwan as an important attribute of good government service, but it means different things in different countries, reflecting both different institutional arrangements and differences in culture. Australia's current application of the merit principle is described in some detail. The principle and its application have been subject to debate throughout the last century and continue today. The debates reflect social attitudes at the time and developments in the role of government and the skills government requires, and changes in the Australian labour market. Key debates include the role of women, treatment of ex-servicemen, importance of graduate recruitment, equal employment opportunity, and staff perceptions of fairness and the application of merit in employment decisions. China has a long tradition of autocracy and a long history of competitive examinations for joining government service. It faces the challenge of whether it is possible to embrace a merit principle where politics and administration are not distinguished. Merit is also applied within a culture that gives considerable emphasis to personal relations (guanxi). Taiwan also draws on China's long experience with examinations. A key challenge now is whether it gives too much emphasis to equality and fair access to public sector employment opportunities and too little to the skills and experience different government agencies require. These different approaches and different challenges reflect differences in the three countries relating in particular to the role of government, the relationship between politics and administration and culture.

Key words: merit, Australia, China, Taiwan, politics and administration, culture

The term 'merit' is commonly used in all three countries – Australia, China, and Taiwan – to describe an important attribute of good government service, but its meaning and the way it is promoted and managed differ sharply among the three. In broad terms, the attribute concerns 'neutral competence', the capability of civil servants to exercise their responsibilities efficiently and effectively, and impartially.

The differences in interpretation and practice across countries reflect both differences in institutional arrangements and differences in culture. These differences are highlighted in the articles in this symposium, drawn from papers presented at a workshop on Public Sector Human Resource Management organized by the Greater China Australia Dialogue on Public Administration, held at Sun Yat Sen University, Guangzhou, in November 2013.

SYMPOSIUM

Crowding Out Meritocracy? – Cultural Constraints in Chinese Public Human Resource Management

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This paper seeks cultural explanations of the pervasive norm violations against the principle of meritocracy in Chinese public human resource management especially at local levels. It reveals that a bureaucratic culture of patrimonial individualism, including favouritism, nepotism, localism, and factionalism prevailing within Chinese officialdom as the ethos, value, psychological disposition, and behavioural orientation of civil servants, has undermined the development in China of a modern meritocracy-based civil service system. With 14 case studies, this research demonstrates that the Chinese civil service institutions, derived from an opposite culture of hierarchical collectivism, failed to address the cultural constraints over the implementation of the meritocracy principle. The conceptual framework, as well as the case findings, points to legislative and policy reforms in China that would address the problems derived from the unique Chinese bureaucratic culture through further institutional design and capacity building.

Key words: Chinese civil service, meritocracy, bureaucratic culture, public human resource management, cultural theory

Meritocracy is essential to a modern bureaucracy and public administration. Northcote and Trevelyan (1854), Wilson (1887), Goodnow (1900), and Weber (1946) all advocated that politics and administration must be separated to ensure an efficient executive branch of government. Correspondingly, in civil service management, the political patronage or spoils system must be eliminated and replaced with a merit system. Merit or achievement, implying political neutrality and impartiality of administrators, as the primary criterion in recruitment, selection, and promotion of civil servants, has become a central doctrine of modern public administration (Kaufman 1956).

During the reform era since late 1970s, China has made significant progress in promoting meritocracy in its public human resource management (HRM). Some scholars argue that Chinese civil service reforms in the past two decades and more can be summarized as the advent of the merit system (Burns 2007; Chow

1991; Lam and Chan 1996). Others even attributed the survival of the Chinese communist regime after the 1989 tragedy largely to the authoritarian resilience characterized with increased meritocracy (Nathan 2003). Indeed, the core of civil service reforms (or even more broadly the administrative reforms) in China is solely related to the increasing advancement of meritocracy.

Nevertheless, the past 20 years (starting with the *Provisional Regulation of State Civil Servants* promulgated in 1993, which marks the beginning of a modern civil service system in communist China) also witnessed that the principle of meritocracy or the efforts to build up a modern civil service based upon meritocracy has frequently been compromised and undermined. Some ascribed this to a systemic flaw in the Chinese civil service institution that lacks a concept of political neutrality or neutral competence (Chan 2010; Chan and Li 2007). Without a 'neat' definition of meritocracy,

considerable room for improving the criteria of this line of research. This disposition found to exploit the weaknesses of the principle to gain in the daily

This research aims to examine behavioural differences between Chinese approaches to meritocracy and public HRM reform in its cultural context. The objective of the strategic research is to examine the cultural context. A cultural perspective is placed on the unique Chinese civil service management and the principle

Focusing on behavioural differences, it defines it in terms of the general orientation of civil service (1965) toward the principle of meritocracy. It is to structural situation through mediation (Eckstein 1988). HRM, the acceptance of the principle of meritocracy are conditioned by disposition and culture or their values.

This paper aims to explore the constraints on the implementation of the principle in China at the local levels. Hence the acceptance of the principle among Chinese civil servants is influenced by cultural forces? The paper argues that the bureaucratic culture and orientation of an individualism principle of meritocracy in Chinese civil service is a contradictory and effectively addressed

Career mobility lies at the heart of public sector personnel management, and it is important to identify its antecedents, characteristics, and consequences both in terms of theory and practice to strengthen employee motivations and maximize organizational performance (Ferris et al. 1992). Organizational personnel decisions are usually made ostensibly through formal procedures based on specific criteria, but organizational members may hold different points of view on what matters in career advancement (Beehr et al. 1980). If employees perceive that work performance plays an important role in personnel decision-making, they are likely to

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Key words: *meritocracy, guanxi, promotion channel, career advancement, fairness*

Do performance or personal ties (guanxi) matter more in the promotion of local public employees in China? In this paper, we examine public employees' perceptions of the roles played by merit and guanxi in promotion. We adopt a configurational approach to classify public employees' perceptions of the reasons for their promotion into four groups: merit-based, guanxi-orientated, ambidextrous (both), and fatalistic (neither). A recent survey of 886 public employees shows that around 40% see promotion as merit-based and 20% as guanxi-orientated, with 10% perceiving promotion to be ambidextrous and 30% fatalistic. Younger employees with higher rank are more likely to perceive promotion to be merit-based, whilst highly educated and highly ranked employees with strong public service motivation are more prone to see promotion as ambidextrous. Those who perceive promotion to be ambidextrous are more satisfied with promotion fairness, suggesting that a subtle balance needs to be maintained between merit-based and guanxi-orientated promotion channels, rather than rejection of any guanxi element.

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Public Employees' Perceived Promotion Channels in Local China: Merit-based or Guanxi-orientated?

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Party Management of Talent: Building a Party-led, Merit-based Talent Market in China

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This study examines major policy measures that the Chinese Communist Party (CCP) leaders have adopted to establish a party-led, merit-based talent management system to cope with a talent deficit in the reform era. It also assesses the effectiveness of these measures at both national and local levels. This study argues that although merit principles are never entirely missing from China's cadre personnel management, they have been given increasing priority in managing the cadre corps and recruiting global experts to China during the past three decades. This study shows that the CCP personnel management policies are in substantial and adaptive evolution, which is important for understanding the nature of human resource management in post-Mao China.

Key words: *party management of cadres, party management of experts, meritocracy, talent management, human resource management, China*

Since the opening up of China to the West in 1978, Chinese leaders have striven to develop

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a talent market that places more emphasis on merit, rather than relying primarily on political loyalty. Merit – as determined by one's qualifications, work ability, and job performance – has become an important additional credential in Chinese cadre personnel management. In China's social institutes and private sector, merit has become one of the most important criteria in human resource management (HRM) – a major shift from policy under Mao.

In the past two decades, Chinese Communist Party (CCP) leaders have made concerted

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