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A Chinese perspective

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Item Type	Preprint
Authors	Xiaohe, Lu
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Download date	2026-07-05 20:24:56
Link to Item	http://hdl.handle.net/20.500.12424/173896

A Chinese Perspective: Business Ethics in China Now and in the Future¹

Lu Xiaohe

Abstract

China now manufactures or assembles over fifty percent of the world's products. However, the world has been reeling from daily accounts of defective "Made in China" products. China has been at the forefront of growing concern not only about its products and enterprises, but also about its business ethics. This paper analyzes recent events connected with the Made in China label from the perspective of evolving Chinese business ethics. Part One analyzes three of these events. Part Two details and analyzes the state of business ethics in China today. Part Three concludes by exploring the future of business ethics in China. The main conclusion is that business ethics in China faces two kinds of ethical challenges: how to restrict the lawless in as short a period of time as possible and how to protect and advance the interests of employees, investors and the public through corporate management and public administration.

A Chinese Perspective: Business Ethics in China Now and in the Future

Lu Xiaohe

With its 1.3 billion people, China now manufactures or produces over fifty percent of the world's products. Sara Bongiorni, the author of *After a Year without China* has written, "You can still live without products from China, but it's getting trickier and costlier by the day."² Stephen Dover, Executive Director of Franklin Templeton Advisors, has observed, "The main reason for the absence of inflation within the global context is the deflationary role played by Chinese exports."³ It seems that Chinese products are integral not only to the life of the Chinese but also to the lives of those living outside of China. However, the world has been reeling from daily accounts of defective "Made in China" products ranging from toys and pet food to toothpaste. People want to know: What is the matter with "Made in China" products? Are they really so bad? Are Chinese enterprises trustworthy? What exactly is the current state of business ethics in China? China has been at the forefront of growing concern not only about its products and enterprises, but also about its business ethics. If I were to deal with all of these questions, this paper would be too long and confusing. So I will limit myself to several topics. The paper has three parts. Part One describes and analyzes three of these events. Part Two describes the state of business ethics in China and discusses related issues. Part Three concludes by exploring the future of business ethics in China. The main conclusion is that business ethics in China faces two kinds of ethical challenges and tasks: how to restrict the

lawless in as short a period of time as possible and how to protect and advance the interests of employees, investors and the public through corporate management and public administration.

Part One: Description and Analysis of Recent Events Connected with “Made in China” Products

1. Brief Overview of the Events

The American public is justifiably concerned about Chinese products. It seems that just about every week there is news that goods from China are dangerous. The United States Food and Drug Administration (FDA) has warned consumers to “throw away Chinese toothpaste.”⁴ At about the same time as the toothpaste scare, the American press began to track pet deaths caused by tainted pet food coming from China. Newspapers identified the lethal poison, detailed how it was manufactured, and described its chemical structure.⁵ The two Chinese companies responsible for the tainted pet food did not take responsibility for the poisonings. On the contrary, they denied that they had illegally added melamine to the wheat gluten, thereby impeding both the rescue of Americans’ pets and the investigation by the Chinese government into the cause of the poisonings. Then Americans learned of Hong Kong businessman Zhang Shuhong’s suicide. Zhang killed himself after his company on the mainland had to recall 967,000 toys contaminated with lead paint. His firm was forecast to lose over 30 million US dollars this year and had to suspend its export business entirely. The vendor who sold Zhang the fake unleaded paint fled after the truth about the

vendor's involvement emerged.⁶

2. *Analysis of Three Events*

As the Chinese saying goes, “if a mouse dropping goes into the soup, then the whole pot is ruined.” Americans and others now believe that all Chinese products are bad because a few have had problems. But, in fact, Chinese products are generally good overall.⁷ According to the Chinese Minister of Commerce Bo Xilai, China's exports have maintained an average annual growth of 17% for 29 years. This steady growth suggests that Chinese exports have passed the consumers' test for quality. Moreover, according to official Chinese statistics, 99% or more of China's food exports to the United States, the EU, and Japan met or exceeded quality standards from 2004 through the first half of 2007.⁸ The fact that the vast majority of Chinese products are safe has led many people, including some Americans, to believe that the recent concern about Chinese products stems from trade protectionism. Nancy Nord, the Executive President of U.S. Consumer Product Safety Commission, has warned that using the safety issue to intensify trade friction would be “stupid” behavior. According to her, the product safety problem should be treated as just a safety issue and should not be expanded to other arenas.⁹ Many Chinese also believe that recent accusations concerning Chinese products reflect a fear of China's growing economic power.¹⁰

Nevertheless, “the mouse dropping” did occur. So it is important not to claim that the pot of soup is great. Instead, all concerned parties should try to solve the quality problem at its root and seek to insure the safety of all goods. Thus, in response to

recent events, the Chinese government has stressed its policy of “winning through high quality.”¹¹ It has established a State Department group for product quality and food safety headed by Vice Premier Wu Yi. This group is charged with actively checking and regulating product quality and food safety. It has set a goal of fully meeting twelve standards within four months. This goal is very aggressive and suggests that the Chinese government is quite serious about tackling the issue of the 1% defective or tainted products.¹²

What is the root cause of these defects? Let us look in more detail at the three cases mentioned above. The glycol that led to the Chinese toothpaste recall was for many years used around the world as a substitute for glycerin. Not only China but also the European Union and the United States had previously certified that using a small amount of glycol in toothpaste was safe.¹³ Ten years ago, when glycol was around half the cost of glycerin, many enterprises in China and elsewhere used glycol. Today the price difference is only a few cents, and large enterprises in China no longer use it. But some smaller Chinese enterprises have continued to use glycol to save a little bit of money.¹⁴ In the toothpaste case, the root cause of the scandal is that Chinese industry standards lagged behind the practice of larger Chinese and foreign companies.

With respect to the tainted pet food problem, the root cause is more obvious. Melamine was found in the wheat gluten used by Menu Foods in their pet food. This compound is used in plastic products. If animals eat melamine, they die from renal failure. The two Chinese companies, An Ying Biotechnological Development

Company and Futian Biotechnological Company, illegally added melamine to the wheat gluten because otherwise they could not meet the required level of protein. The two companies then illegally exported the contaminated pet food through the channel of non-declared goods, thereby evading quarantine inspection and supervision. It is noteworthy that the two companies are both smaller private enterprises and both, like Enron, had won many honors—for example, each had been lauded as a “Star Enterprise”, an “Honest and Trustworthy Enterprise”, or an “Advanced Quality Management Enterprise.”¹⁵ As it turned out, these honors were just so much window-dressing.

In the third case, The Zhongxin Color Paint Plant took advantage of Zhang’s Linklaters Toys. Linklaters Toys had run out of one color of paint. The Zhongxin color factory provided false certificates and sold fake unleaded color (via another intermediary vendor) to Linklaters Toys. Linklaters manager Hong Kong businessman Zhang had for ten years produced good, safe toys. He did not know that the new paint he had received was leaded. The unscrupulous paint vendor ruined his reputation and that of Linklaters Toys.¹⁶

From these events, it is clear that there are two kinds of problems with the 1% of defective “Made in China” products. The first problem concerns the management of industry standards. Chinese standards lagged behind both international and domestic practices. This problem is easily solved: just raise the standards to conform to industry practice. In fact, the Chinese government did raise the standards applicable to toothpaste on July 11 of this year.¹⁷ In the other cases, companies or their suppliers,

lacking technical capacity and materials, resorted to deception and lowered their standards instead of altering their technology or processes. The three events I have been analyzing reflect two sorts of problems. One problem stems from the business owners and managers' character. The other problem is really an administrative issue, including the local government's misjudgment of the integrity of some smaller businesses. Therefore, we can say that the 1% of problematic products is, in part, a domestic Chinese issue. However, many people have argued that American importers also should bear some responsibility. After all, the USA signed off on the Chinese toothpaste prototypes and then provided the registration for the toothpaste and obtained FDA approval for it.¹⁸

Other developments also suggest that the problem is two-fold. According to official Chinese statistics, the average pass rate for national food inspection has increased from 60.3% in 2001 to 77.9% in 2006. Moreover, according to the recent State General Administration of Quality Supervision Inspection (AQSI), the domestic food pass rate has now reached 85.1%.¹⁹ On the one hand, the domestic food supply is steadily getting safer. On the other hand, the domestic food pass rate is considerably lower than the exported food rate. A recent online Chinese survey asked people: "What is the main reason behind the current food safety issues?" 29% believed that it is due to "illegal food processing enterprises and individual greed." 30% said that the "punishment of dishonest enterprises and individuals has not been good enough." 35% answered that "law enforcement supervision has not been adequate."²⁰ At the business level, there is greed and dishonesty, while at the governmental level,

regulations and punishments have not been effective.

The Chinese government has begun a rectification campaign centered on product quality and food security. The campaign stresses “two chains,” “one system,” and “one network.” According to Minister Bo Xilai, “The first chain refers to the supervision of the product from industrial design, material acquisition, processing, up through and including the sale of the product. The second chain extends from the farm to the marketplace and then to the table. ‘One system’ refers to a system of quality tracing and accountability. The final term--“one network”--refers to a monitoring system covering the whole society. This structure of two chains, one system and one network is meant to be pragmatic, scientific, and safe.”²¹ It appears that the Chinese government will use the recent “Made in China” controversy to strengthen the supervision and regulation of the quality of all products, services and construction projects. This campaign should make it more difficult for the 1% of defective exports and the 14% of unsafe domestic products to escape the safety dragnet.

We should remember, though, that such a dragnet is only an external constraint on the behavior of businesses and individuals. We know from past experience that some people will try to avoid the new laws and policies. Driven by greed, people without scruples will defy the law. The greedy will seek to subvert the inspection system and take advantage of the weak. Therefore, the true line of defense of product quality and safety is the businessperson’s own moral bottom line. If people are utterly lacking in such scruples, the central government will have to run around putting out this fire and then that fire. From the perspective of business ethics, administrative and

institutional means are not enough to address governments' ineffective supervision and punishment. Although only 1% of products are defective, the reasons for the problems are profound. Some issues need to be explored in greater detail. In particular, the presuppositions behind the regulations cannot be neglected if we are really to improve business ethics in China. From the analysis of these three incidents, it is clear that we must delve deeper into business ethics and related ethical issues in China.

Part Two: Business Ethics in China: Its Development and Problems

Current Chinese business ethics have emerged primarily as a response to the market economy reforms made at the end of the last century. Issues stemming from the reforms have caused people to focus on the connection between business and ethics. However, today's business ethics need to be concerned not just with the economic transition but also with the market economy itself.

1. Development of Business Ethics in China

The emergence and development of business ethics in China can be divided into two periods relative to China's entry into the WTO.

First period: The rise of business ethics from late 1978 to the end of 2001 when China entered the WTO. During this pre-WTO period, business ethics arose from domestic economic reforms. These revolutionary reforms moved China from a planned economy to a market economy. These reforms altered people's fundamental economic interests, so Chinese thinkers and ordinary people debated whether these changes were fair and reasonable. This question was not simply an economic one.

When the changes in economic relations were viewed from an ethical perspective, the ethical concepts linked to the older planned system were also inevitably challenged. Their underlying justification was questioned. Before the reforms, there were social ethics and ethics in business, but there was no specific field of business ethics. The changes in economic relations and economic systems required a corresponding ethical defense.

Furthermore, other aspects of social life and traditional culture had to be balanced and coordinated with changes in the economic area. Since the Confucian tradition and Marxist ideology were ethical systems as well, these two systems naturally had to be integrated with the revolutionary reforms. Business ethics in the West, especially, in the USA, fostered the rise of business ethics in China. Unlike the rise of business ethics in the USA, the emergence of business ethics in China was not seen as an oxymoron. The field and concept of business ethics were supported by both the society and the government. However, for the most part, those interested in business ethics in this period were primarily scholars in ethics, philosophy, sociology, and a few in economics. Business ethics was largely an academic discipline. In this period, progress consisted of establishing the field of business ethics, conducting research, setting up courses of business ethics within MBA programs in colleges and universities, holding conferences and seminars, and publishing relevant articles and books.²²

But now we are in the *second period*. This period runs from early 2002 when China entered the WTO up until now. Four additional factors have come into play,

adding impetus to the development of business ethics. Impetus came from the need for China to comply with the WTO rules. China substantially altered the legal environment in which business would operate after the WTO entry. The second factor was a widespread crisis of credibility, prompting China to focus not just on technical but also on ethical requirements for complying with the WTO regulations. This crisis of credibility led the Chinese to seek support from traditional Confucian ethics. The third factor was the internal economic changes, which made the Chinese people more aware of their rights and interests. This growing awareness was bolstered by public opinion and the Internet. The final factor was the change in the government's ideology (e.g., the announcement of the *Three Principles for People*).²³

In 2002, former Premier Zhu Rongji announced that the slogan "Don't cook the books" would be the school motto for the three national accountancy colleges.²⁴ This pronouncement focused people's attention on the credibility crisis and stimulated public discussion about integrity in business. "诚信", which means "credibility and integrity," became a goal for both corporations and governments. On the macro level, many laws and rules linked with international standards were refined. After 2003, the government made more significant changes. It improved the socialist market system, implemented a comprehensive reform, and sought to bring about more widespread general development and to create a harmonious society. The government did not focus only on GDP. This widening of the government's perspective has been a major adjustment at the macro level and has deepened the government's guiding ideology. On the one hand, the new view reflects the changes in social life needed to

accommodate the economic changes. On the other hand, the new view should be viewed as a reflective response to the reforms begun back in 1978. At the organizational level, companies began to comply with SA8000 and adopted CSR. The Department of Commerce organized a team project on CSR in the Chinese context. According to this project, enterprises are required not only to consider their profits, but also their social and environmental responsibilities. This change reflected the demand for a more comprehensive development at the organizational level.

It is useful to compare the two periods in the development of business ethics in China. There are three significant differences between the two periods.

1) To a large extent, the discipline of business ethics today does not address ethical issues arising out of the transition from a planned economy to a market economy. Business ethics issues increasingly arise from the market economy, which is now the basic mode of China's economic operations.

2) Business ethics has moved from theory to practice, from academics to governments and practitioners. The protagonists of business ethics are no longer just scholars, but governments, enterprises, and citizens (even though these parties may not be conscious of the role they are playing). Ethical principles and ideas have been incorporated into laws, policies and regulations applicable to economic systems and organizations. Current debates in China about regulations applied to the stock market and real estate and about the new anti-corruption measures involve ethical issues (see, e.g., the recently issued special rules governing relationships between businesspeople and government officials).²⁵ The development of business ethics is manifested in the

corporate cultures of well-managed firms such as Bao Steel, Fuda, and Ming Yuan. In other words, today the development of business ethics is firmly imbedded in business practice.

3) Business ethics used to be just an MBA or EMBA course. Now businesspeople and officials rely upon business ethics in practice. At present, business ethics teaching and research may even lag behind practice. Because of the complexity and specificity of many ethical issues (e.g., finance issues), academics may find it somewhat difficult to explore these issues. However, practitioners, actors operating at different levels of economy, and citizens have risen to the occasion and are addressing some of these more arcane issues. For example, CSR is part of the Shenzhen Stock Exchange's training course for independent directors; China National Petroleum Corporation has publicly issued its first CSR report.²⁶ The interest in business ethics has moved from academia to the marketplace and social life. This change has put business ethics on a more solid foundation. Business ethics has been woven into practice and into the system.

2 . Issues & Problems

Although business ethics in China has expanded from being nothing to being a discipline, from the domain of scholars to that of market agents, the field still faces many challenges and must develop if it is to satisfy the public. In addition to food safety concerns, some additional incidents also reflect problems of quality. Apart from product and service quality problems, China has more serious issues connected with corruption, labor rights, distributive justice and so on. The government is trying to

solve these issues through institutional and administrative means, issuing anti-corruption rules, strengthening the inspection and surveillance of safety and quality, and so on. I think, though, that these problems should be considered at a deeper level.

First, these issues are connected with the use of the market and capital to develop the economy. As Professor Peter Koslowski has noted, “We don’t want to live in a just society where nothing can be bought; and we also don’t want to live in an efficient and affluent society where money is used for morally reprehensible purposes.”²⁷ The China of thirty years ago was like Koslowski’s just society where little could be purchased. Under the planned economy, people lived in poverty in a shortage economy. Over 1 billion people existed on food ration coupons. Three decades later, China is providing the world with many great products at a reduced price. These lower prices have curtailed world inflation and promoted world prosperity, prompting Alan Greenspan to argue that China is playing a crucial beneficial role in the world trade system.²⁸

What has led to all of these changes in China? The answer is clear: the economic reforms, the use of the market, and, more fundamentally, the use of capital as the mode of production. Regardless of the form of ownership, all for profit firms operate by means of capital production and circulation. Consequently, the profit motive has become the primary driver. Never before in Chinese history has the profit motive been so crucial. Indeed, the profit motive has been more key than the use of capital. Long ago Karl Marx pointed out that, although Britain exported its

goods to China, England forgot to export its own economic system to China. China remained a country of small farmers and family industries.²⁹ Now all of that has changed as China has extensively opened to the world economy. The Chinese economy has been commercialized and capitalized. Wealth in China is now like spouting fountain. This overcoming of scarcity has brought many benefits to people in China and the rest of the world. However, the changes also have had drawbacks. Under the planned economy, there were no such problems. As a popular song puts it, “Previously, the sky was blue, the water was green, the crops were growing on the land, and eating pork was safe....”³⁰ It seems that Prof. Richard T. DeGeorge was correct: as capital has come to China, the evil of free enterprises has followed.³¹ And as Prof. Daryl Koehn has observed, “Traditional virtue is rooted in wisdom. The development of market economies somewhat undermines these virtues.”³² Previously, people wanted to be like Lei Feng, a hero who dedicated his life to the people. Today the profit motive seems to be king. Under market pressure, some people not only are cheating consumers within China but also in foreign countries. Before the reforms, people like the pet food producers would not have been able to cheat. Instead they would just have been working a factory somewhere earning twenty or thirty yuan per month. The very thing that has led to success has also resulted in failure. The market and use of capital has brought great benefits but also has been the biggest source of problems.

Second, these issues are related to the administration’s guiding theory and policy. In the early 1950’s, the government believed it should use, restrict and alter private

enterprises. After the reforms, the government thought it should support the private enterprises. It did not worry too much about regulating and supervising market and capital. Why did the administration initially adopt this too supportive attitude? There are four reasons. First, it incompletely understood the concept of a “service government.” After the reforms, private enterprises were seen as builders of the new market economy with socialist characteristics. Some local governments did not understand the need to regulate capital; they thought rather that they could serve the nation by providing capitalists with good service. In one case, a local government began a program offering free medical examination for private entrepreneurs. This service was available only to a few people and so the public viewed it with suspicion.³³

The second reason for being too supportive was that the administration worried that, if it were too tough, then private capitalists would become scared and withdraw their capital. Some people argued that even if those capitalists’ initial investment were illegal, China still should not prosecute them as long as the profits from the investment were used responsibly. In fact, in February of this year, the television aired a very interesting true story: a person stole a pig belonging to another person. This thief became very successful by investing the money he got from selling the stolen pig to obtain an education. He then used his education to make money through business ventures. So people debated: should the thief be prosecuted, given that his business venture has created many new jobs and other benefits?³⁴

I come now to a third reason why the governments did not grasp the need to

regulate and supervise capitalism. Deng Xiaoping famously said that “Development is the last word.”³⁵ But what is real development?³⁶ Has a country developed if it neglects environmental and human improvement in favor of GDP growth? Growth is not the same thing as development. This conflation of growth with development has led to some local government failures of regulation and supervision.

The fourth reason is that the revolutionary reforms decentralized power, making local governments more strong. Local interests coupled with officials’ desire to achieve GDP growth have engendered a wrong notion of good government performance. Some officials have taken bribes from businesses, thereby undermining regulation and supervision. Some people argue that it is in the nature of capital to attract people who pursue narrow self-interests. All four of these reasons have created opportunities for a kind of lawless behavior.

In addition to the use of capital and the incomplete understanding of governments’ role, there is a third factor relevant to the recent scandals. China lacks a proper theory of the corporation, its correct culture and its ethical foundation. In China, many companies began in the 1970’s without any ideology or culture. Enterprises used to be state- or collective-owned and had no special ideology or culture. All we had were social ethics, specifying how individuals should perform social roles. We had no special ethics for private enterprises, because the mainstream political thinking treated private enterprises as evil. In today’s post-reform era, we need some new political, moral and legal thinking about these enterprises. In particular, we require some stable ideas about how we should best treat those who are

involved in production. For example, when capital was introduced in the early 1990s, one private enterprise wisely refused to start production until after it had educated employees who once thought that capital was evil to respect capital.

This need for a corporate theory and for corporate ethics has generally been ignored in China. In the 1990's, some publishers began to introduce books from the US. These were older books from the 1970's and earlier. They did not discuss CSR but taught only how to make money. In China, we also have a saying that "the marketplace is a battlefield." These books, coupled with this Chinese saying, gave the impression that business is a jungle where one should use whatever tricks are necessary to make money. I was surprised to hear a Chinese professor of management give a recent lecture comparing a corporation to an organized group of robbers. The use of this jungle metaphor reveals both the neediness of entrepreneurs who genuinely wish to know how they should be doing business and our lack of ideas about sound corporate culture.

In the 1980's, US scholars developed and relied upon stakeholder theory, virtue ethics, social contract theory and Kantian ethics to place corporations on a strong ethical foundation. Since the US had ethical theories about the corporation, when US firms faced a crisis of trust, these firms were able to regain their footing pretty quickly. We still see business ethics thinking developing in, for example, recent writings about moral capitalism. Corporate morality is the basis of corporate identity and reputation. If a firm operates as a thief, it is hard to see how it will be able to compete successfully in the long run with firms that respect stakeholders. Wise Chinese

enterprises, such as Fuda, Lenovo, Ming Yuan, and Haier, are very much aware of the need to improve their corporate ideology and culture. Still, there are a few firms that adhere to what I call “the illusion of classical capitalism.” Like 19th century capitalists, these companies think that, in order to survive, they may justifiably do whatever it takes to make money.

So here is China’s current situation: we have many laws but Chinese corporations still need to build their own mature ideology and ethics. If they do business only to make a huge profit; and if they believe they are entitled to do whatever it takes to make money, then we will see firms lowering standards to reduce costs. Lacking a legal and ethical bottom line, they will act, like the pet food manufacturers, in an inhumane manner. Yet there is reason to hope. For a growing number of companies have recognized the importance of ethics and are building cultures of integrity. At present the civilized companies co-exist with a few uncivilized enterprises. If the lawless are not monitored and regulated, they may overtake the others.

To summarize: with respect to the 1% of unsafe Made in China products, the causes of the problems are clear—a too strong profit motive, an incomplete understanding of the governmental role, and the absence of a proper corporate culture. Of course, Western countries and other emerging markets face some of these same problems. In other cases, the problem is unique to China for historical reasons (e.g., the incomplete understanding of the administration’s role with respect to private corporations).

Part Three : Responses and Challenges

Can we rectify these problems? If so, how? In my view, the root problem goes beyond a need for changes in the regulation of trade and industries. The bigger requirement is the development of concepts, doctrines and ethics.

1. First Level of Response

Vice Premier Wu Yi has announced that the government will strengthen the supervision of the production process from the use of raw materials to the finished product. Since policies are always tied to changes in ideas and ethics, this stress on high quality may have a large impact in three ways.

First, the recent stress may change the driving force behind China's economy. Instead of the profit motive, people may be driven more by their responsibility to the Chinese nation. Three motives lie behind the actions of Chinese enterprises and businesspeople: 1) the individual and family; 2) the local community; 3) the nation and society. At first, business owners seek their individual and familial interests. But as enterprises succeed and grow, entrepreneurs are increasingly recognizing their larger responsibilities. Like Yuan Li, the President of Fuda, and the late Chen Xiaoxu³⁷, these entrepreneurs have begun to seek a stronger and deeper motivation. The recent events around Made in China products may lead not only to greater governmental pressure on firms. They may also inspire entrepreneurs to pay more attention to national reputation and pride. Perhaps businesspeople will seek to integrate their personal, local and national motives. If so, the result will be stronger psychological support for product quality and security. Added to strengthened

supervision, this larger awareness will reduce the power and appeal of the profit motive. Entrepreneurs will neither want nor be able to engage in dangerous behavior.

Second, we may witness the emergence of corporate cultures with Chinese characteristics. The stronger supervision and industrial standards will destroy the classical capitalist illusion. What will take its place? Despite the lack of corporate theory during the past decades, more entrepreneurs have drawn upon their experiences and used their own insights to refine their cultures. Most Chinese entrepreneurs' experience can be summed up in the phrase: "the company should be like a person." Fuda, for example, has a "good persons' culture." Yuan Li has argued that being a good person has two aspects:

1) What is the good person? The key traits of a good person are 忠孝, loyalty and filial piety. According to Yuan, people are 80% motivated by profit and interest and 20% driven by faith and feelings. A good person is someone in whom 80% of motivational force is subject to and refined by the demands of 20%.

2) How then should we act in order to become a good person? Yuan Li has taken traditional Confucianism and Taoism as the basis of for the corporate culture he has developed at Fuda. Confucianism can teach the entrepreneur how to be a human being in a community, while Taoism can instruct him how to run a good company. Yuan Li also draws upon Western corporate governance theory. He uses the latter as the hardware for the governance of his firm, but uses Chinese culture as the software to operate and promote an ethical culture.³⁸ Fuda's experience suggests, in my view, that many aspects of Confucianism can be very helpful in building Chinese corporate

culture. Take the ideas of 德治公司 (de zhi gong si) , 君子领导 (jun zi ling dao) , 显达之士 (xian da zhi shi). These phrases can be translated as follows: run companies by virtue; lead companies like a man of honor; and employ only those with good reputations and excellent abilities. While Chinese entrepreneurs will continue to learn from Western corporate governance, they will, I believe, combine these insights with other practices and ideas drawn from basic Chinese culture.

Third, we are likely to see changes in the mainstream ideology as the government struggles with how to respond to the problems revealed by incidents such as those involving toys, toothpaste, and pet food. The government will take action not merely to punish the wrongdoers but it will also reflect upon and refine its guiding ideology and policies. For their part, enterprises will wake up and come to appreciate the importance of developing cultures with Chinese and socialist characteristics. Faced with changes in the market economy and society, the mainstream political ideology will not only regulate behavior but also will seek to provide norms as it curtails out of control market behavior. This same dynamic has been apparent in the recent regulation of TV programming.³⁹

2. Second Level of Response

At present, there are two kinds of enterprises in China. One follows a managerial pattern, sharing benefits and profits with all stakeholders; the other follows a 19th century pattern, giving most incentives only to owners and senior managers. Post-reform, the classical model at first seemed to be the best one. The profit motive proved to be a very flexible incentive and was responsible for about

70% of the GDP. However, as reforms have been made in the state-owned enterprises, we have begun to see the advantage of the managerial pattern. Some private enterprises are learning from SOEs. For example, Fuda has been reforming its ownership, making itself into a new type of company that has both public and private partnerships and stakeholders.

Business ethics in China faces two kinds of ethical challenges. The first challenge consists of curtailing the behavior of uncivilized enterprises as quickly as possible. Although the 19th century model of capitalism persisted for awhile after the reforms, the government, people and international context have all worked to rein in the lawless and to stop the threats to people and to the environment.

The second challenge lies in improving the managerial economy, working on problems related to governance and to the separation of ownership from management. Here we can learn much from the experience and response of the West regarding how to insure that corporations and governments attend to the interests of employees, investors, and the public. A truly socialist market economy would have macro-control policies, safeguarding the public interest, promoting common prosperity, and curtailing the lawless. A truly socialist market would also support and develop the increasingly direct expression of public interests and would aid those social corporations possessing a good governance structure. If this scenario unfolds in this way, then the managerial economy may operate not as an obstacle but as the major impetus toward development.

If China with its huge population can solve these problems, its people will have

made a great contribution to the world. The problems prior to and after the reforms are in a sense similar. Before the reforms, we worried about we could guarantee that officials would use their power to help the people as a whole, not just to benefit themselves. After the reforms, we worry about how we should increase the value of state-owned enterprises so that all people can benefit. Business ethics in China has the responsibility to meet challenges in their new form and to offer insights into how to address them.

Conclusion

Analysis of recent events suggests that there have been two problems with the small percentage (around 1%) of defective Made in China products: 1) the relevant government standard has lagged behind industrial practice; and 2) a few businesspeople have acted immorally. These two problems can be traced to three deeper causes, causes connected with the ongoing rise and development of business ethics in China. These three causes are: the use of capital, an incomplete understanding of governments' role and the lack of a proper theory of corporations. The Made in China controversy has already prompted changes in government policy. These changes are likely to alter the driving force behind the Chinese economy; foster the development of corporate cultures manifesting distinctively Chinese features; and strengthen socialist characteristics of the market and corporate cultures. Two challenging conundrums remain: how to rein in the lawless as quickly as possible and how to insure that employees, investors and the public's interests are preserved by corporate management and public administration.

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- ¹ I would like to thank Professor Daryl Koehn for her kind assistance in editing this paper.
- ² <http://world.people.com.cn/GB/41219/3967799.html>
- ³ <http://blog.china-cbn.com/u/65401/archives/2007/30655.html>
- ⁴ “Throw away Chinese toothpaste,” <http://www.msnbc.msn.com/id/18841928>
- ⁵ http://en.wikipedia.org/wiki/2007_pet_food_recalls
- ⁶ <http://www.voc.com.cn/Article/20078/200781594929810.html>
- ⁷ <http://info.easyeb.com/html/2007/8/3/12122393687339.html>
- ⁸ <http://life.people.com.cn/GB/1089/6137494.htm>
- ⁹ <http://life.people.com.cn/GB/1089/6194868.html>
- ¹⁰ <http://bbs1.people.com.cn/postDetail.do?boardId=2&treeView=1&view=2&id=3290283>
- ¹¹ <http://politics.people.com.cn/GB/1027/6108283.html>
- ¹² <http://shipin.people.com.cn/GB/6184040.html> and http://www.gov.cn/zwzk/2007-08/17/content_719774.htm Added, this special rectification has ended, according to the last record of “Events of Agricultural Products Quality and Safety 2007”:
- “ On December 22, the objectives of meeting twelve standards achieved, the group investigated and dealt with 14517 cases, action against 360 business licence, revoked 128business licenses in the whole country.” See http://www.cpqfs.cn/qgcpzlhspaqxzzxd/ncpzlaqxzz/200801/t20080114_61834.htm. Moreover, China's new draft food safety law, which lays out penalties from fines to life in prison for makers of substandard food, was published on the national legislature website on April 20 for public discussion. See China publishes draft regulation on food safety to solicit public opinion, http://news.xinhuanet.com/english/2008-04/20/content_8016653.htm.
- ¹³ <http://www.cocia.org/ShowArticle.asp?ID=245>
- ¹⁴ <http://www.southcn.com/finance/nfcm/200705280553.htm>
- ¹⁵ <http://anyingxz.cn.china.cn/op/CorpInfo/index.htm>; <http://bzftswkj.cn.china.cn/op/CorpInfo/index.htm>
- ¹⁶ <http://www.voc.com.cn/Article/20078/200781594929810.html> dated 8/15/2007.
- ¹⁷ <http://www.cocia.org/ShowArticle.asp?ID=250>
- ¹⁸ <http://www.cocia.org/ShowArticle.asp?ID=242>
- ¹⁹ http://www.gov.cn/jrzg/2007-07/20/content_691749.htm
- ²⁰ <http://interview.aqsiq.gov.cn:9080/preview/trswcmpoll/200701/p1211.htm>
- ²¹ <http://shipin.people.com.cn/GB/6184040.html>
- ²² Lu Xiaohe, “Business Ethics in China,” *Journal of Business Ethics*, vol. 16 (1997): 1509-1518,
- ²³ <http://news.sohu.com/19/60/news210636019.shtml>
- ²⁴ <http://www.chinanews.com.cn/2002-11-19/26/245097.html>
- ²⁵ <http://news.sina.com.cn/c/2007-06-08/170013185829.shtml>
- ²⁶ <http://news.sohu.com/20070228/n248418954.shtml>
- ²⁷ Peter Koslowski, *Capitalism and Ethics*, Chinese version, 1982.
- ²⁸ <http://finance.people.com.cn/GB/6283600.html>
- ²⁹ Karl Marx, *Selected Works II*, Chinese version, Beijing: People’s Press, 1972, pp. 57-61.
- ³⁰ http://forum.cnool.net/topic_show.jsp?id=3432831&oldpage=2&thesiside=54&flag=topic1
- ³¹ Richard T. DeGeorge, *International Competition with Integrity*, preface to the Chinese version, Shanghai: Shanghai Academy of Social Sciences Press, 2001.
- ³² Daryl Koehn, “On Market Economy, Law and Morality,” *Ethics Studies*, No. 3, 2003.
- ³³ http://news.xinhuanet.com/fortune/2007-05/31/content_6176483.htm
- ³⁴ http://blog.sina.com.cn/s/blog_4b66a10e010008a1.html
- ³⁵ Deng Xiaoping, *Selected Wrings III*, <http://www.people.com.cn/GB/shizheng/252/9483/10239/20030220/927288.html>
- ³⁶ See, e.g., Daryl Koehn “On Development and Growth,” in Xiaohe Lu and Daryl Koehn eds.,

Business Ethics, Corporate Governance and a Harmonious Society, Shanghai: Shanghai Academy of Social Sciences Press, 2005, pp. 503-506.

³⁷ "For a long time, I devoted all my energy to amassing a fortune. Now, I've found that a bigger fortune has not brought either me or my family real joy and happiness." Chen Xiaoxu, a millionaire and famed actress, describing her change of heart to local media before undergoing the head-shaving ceremony and becoming a Buddhist nun,

http://www.chinadaily.com.cn/cndy/2007-03/13/content_825949.htm.

³⁸ This introduction to Fuda Corporation is based on author's interview with Yuan Li. See also *Fuda Newspaper*, ed. by Shanghai Fuda Group Newspaper Press, 2006.

³⁹ <http://ent.sina.com.cn/f/bljjb/index.shtml>

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