

## **Greening or Growing – Conflicting Paradigms in Chinese Business Ethics**

### Abstract

*China is at a turning point in its development strategy. Some indicators, such as the new Five-Year-Plan with many green aims and the start of a cleantech industry, show a new orientation towards more sustainability, including serious measures against environmental pollution and towards a better protection of the ecological systems. At the same time there is an increasing interest in ethical questions related to the paradigms of economic action. While on one hand more and more Western publications on business economics enter the economic discourse in China, on the other hand there is also a growing awareness of the ethical foundations of traditional Chinese economics as stemming from the economic principles of Confucius or the ethical teachings of Taoism. But in this discourse, general questions regarding the most fundamental aims and purposes of economic action are too often ignored.*

*This paper gives a short outline on the current discussions and highlights that these ancient writings are worth revisiting. The foundation of Chinese ethics should play a more prominent role in greening modern Chinese business life. If taken carefully into consideration, these teachings might serve as cornerstone to rethink the blueprint of the country's development from growing to greening.*

### **From Growing to Greening?**

For many decades, China has been a prototype for excessive economic growth and a policy ruthless against the natural environment. Despite Communist rule, in social respect the country is actually a model of exploitation of workforce very alike to the early stages of Western Capitalism. Nevertheless there are some indications of change towards at least a gradual replacement of quantitative growth in favor of a green and sustainable future. Does China really start greening? At least the new 12. Five-Year-Plan as ratified by the National Peoples Congress (NPC) in March 2011 sets new political priorities:

- Strategic shift towards low carbon growth and high value, clean technologies;
- Shifting to a low carbon model of development;
- Energy Efficiency & Environmental Protection (e.g. energy efficient equipment, waste treatment);
- New Energy (e.g. hydro power, solar, wind, but there is still a strong focus on nuclear power);
- New Energy Automotive (hybrid electric vehicle, pure electric vehicle, advanced batteries).

(see the condensed summaries by Baker & McKenzie (2011) and Copsey and Hilton (2011)).

China is already the largest producer of photovoltaic solar panels. Today the country is the second largest market for wind turbines. The share of electricity created from renewable resources shall increase to 23% by 2020 (from 16% today) – the United States do not have such ambitious aims.

Even if only a fraction of these goals were reached, the western stereotypes about China's blindness against the environment have to be revised. China takes environmental problems much more serious than in the past, even though there are still very ambitious goals in terms of economic growth.

Chinese consumer behavior also changed dramatically. While only ten to fifteen years ago, health and bio-products could only be found in shops mostly visited by expats and other foreign customers, they are nowadays offered at most normal supermarkets, at least along the economically developed regions. Without any doubt there is a growing environmental consciousness among the Chinese population manifesting itself in new patterns of consumer demand. Apart from measures against the threatening environmental pollution, this change of attitude is one of the most visible forces promoting the greening of the economy.

### **Ethics and the Economy – Developments and Tendencies**

The ethical standards and implications of economic action are normally subsumed under the concept of *business ethics* or *corporate ethics*. These terms are used both with descriptive and normative purposes. The descriptive usage covers the analyses of existing business performance in the light of ethical considerations, whereas the normative aspect implies the formulation of rules and standards for proper business conduct. The prevailing concept of business ethics does not compulsory include the economic action of individuals in their capacity as private consumers, e.g. fair trade buyers or people preferring a self-sufficient life-style. But a comprehensive ethics of economic action should consist of many perspectives.

A holistic concept of business ethics has to point at the final goal of economic action. In contrast to modern economics, classical Greek economics as shaped by Aristotle did not separate the sphere of economic efficiency from proper moral conduct. All economic actions were assessed first and foremost based on ethical principles. The very end and purpose of economic activities was the “good life” (Aristotle 1948, p.38). In this respect, the ethical discussions of ancient Greece and China show striking similarities.

The same is true for ethical concepts based on religious beliefs. Almost all religions have commandments or at least a number of recommendations on proper economic conduct. Pope Benedikt, for example, blamed the “*damaging effects of the real economy of badly managed and largely speculative financial dealing.*” Consequently he argues for transformation of the nature of finance and investment based on the principles of Christian ethics (see McDaniel 2011). But not only the Christian religion also Islam contains quite detailed standards of economic behavior. The *Sharia* law, for instance, prohibits charging interest on loans. The impact of Chinese religions will be discussed later.

The term business ethics first came into use in some textbooks in the United States in the early 1970s. Firms started in the early 1980s to consider questions of proper ethical conduct of business activities. At the same time first critics of the new approach raised their voices claiming that to impose ethical demands on business performance would infringe the freedom of entrepreneurs. Milton Friedman, for instance, stated that a business cannot have responsibilities. The only responsibility is to make as much money for their stockholders as possible. (see Friedmann 1970). Peter Duncker also denied the need of a separate ethics of business and states that standards of personal ethics also cover all possible business situations. (see Duncker 1981). But over the decades some positions have been revised. In the current discourse most economists think that companies must take corporate social responsibility. Today, fairness in trading practices, labor conditions or in dealing with environmental issues all fall under the umbrella of proper ethical conduct of enterprises. It is seen as a duty of a company to ensure that products and production processes do not needlessly cause harm. As all production exerts environmental impact, such as pollution, consumption of material and energy, habitat destruction or urban sprawl, each economic

action must be reflected in the light of how ecological destruction can be avoided or at least minimized. What seems to be a new discussion at first glance, has actually a long tradition in economic history. Not only Aristotle in the West, but also thinkers in ancient China reflected already 2500 years ago on the ethical implications of man's economic action.

### **The Ancient Chinese Economy and its Patterns of Development**

Over many centuries, ancient Chinese was an economy of a steady-state. Agriculture was the very basis of all spheres of business life. Human and animal power served as the main forces to tap natural resources. Technological progress took place, but only at low pace. If once destroyed due to impact from the outside, this system of reproduction could easily be rebuilt based on exactly the same principles. Marx (1974, p. 379) and Wittfogel (1977, p.52) called this model the *Asian Mode of Production*. The natural conditions of this kind of stationary economy can be found in the geographical shape of the environment. In many areas of ancient China rainy seasons constantly changed with longer arid periods. As a result, agriculture had to be based on a technologically advanced irrigation system. The function of irrigation was not only the provision of a constant water supply for farmers and their villages, but also the erection of solid protection facilities against floodwater and melting snow from the high mountains in spring that both threatened the country.

The construction and maintenance of the irrigation facilities required a high level of engineering skills which still can be studied at the existing buildings at Dujiangyan in Sichuan and other places. These works included a high division of labor and the employment of a huge workforce. As planning and co-ordination of these activities needed sophisticated technical and organizational skills, the social class in charge of this task, held all strings of power in their hands and actually became the ruling class of society (see Ruben 1953; p. 90; Marx 1972a, p.15/1972b, p.7; Wittfogel 1977, p.71). Whoever was in charge of the irrigation system, possessed the political power of that region. The knowledge of irrigation techniques later extended to the skills of building defense and traffic infrastructure as well as of palaces, tombs and temples. Even in present-day China, the way of thinking is still that only a centralized state is capable of ruling all aspects of life, an idea that can be traced back to these historical conditions. Still today, the omnipotent state is seen as entitled to set up the right social values and to educate the people.

State interventionism was therefore a frequent topic in ancient China. Apart from the question of right livelihood, the role and function of the state in controlling economic life was the pivotal question frequently discussed among Chinese economists in history. Among Eastern scholars a well known treatise of classical Chinese economics is the *Discourse on Salt and Iron (Yan Tie Lun)*. This text from Han Dynasty (206 BCE – 220 CE) uses the artistic form of a fictional dialogue to discuss the mutual relationship between fiscal policy, public welfare, the development of productivity and imperial ambitions (see *Discourse* 1931). At the time of the treatise, all military expanses relied on the income from the state monopoly of salt and iron. Therefore the abolishment of this monopoly would bring all expansive actions to an immediate end, not to speak of the loss of reputation for the emperor. The *scholars* complain about many obvious economic obstacles for the free market resulting from this monopoly. While the emperor sees the basis of economic prosperity in territorial expansion, plus the art of proper book-keeping, the scholars criticize the moral degeneration of such a view and insist that only agriculture and proper ethical conduct can ensure a life in happiness and prosperity. Even in such a sober economic document as the *Discourse on Salt and Iron*, economic problems are never detached from moral questions.

## **The Foundations of Traditional Chinese Ethics of Economic Action and its Paradigms**

The traditional Chinese culture is based on principles of balance and harmony. The human being is always seen as a part of the universal order. There is no strict dualism neither between mind and matter nor between the principles that rule the natural world and those that govern social life. The teachings and rites of the classics are seen as condensed wisdom and guidance for social and economic action. Right livelihood and spiritual values are held in high esteem. China's old religions are based on ideas of harmony, stability and a final non-dualism of matter and mind. The Christian concept of man's dominance over nature is rather alien to all of them, instead we find a more reverent attitude towards nature.

### Confucianism and Taoism

Regarding economic action, Confucianism and Taoism developed different concepts, which in some areas are opposite to each other. Taoism promotes simplicity and modesty, and believes in the natural order. All social disorder is seen as a result of detachment from the perfect natural state of things. As a result, non-action (*wu wei*) is considered the best action. Taoism, apart from having exerted far reaching impact on Chinese painting, poetry and martial arts, can also be seen as a forerunner of green economics and environmental protection in business life. In political respect, Taoism promotes a *laissez-faire* approach to economic action:

*“So a wise leader may say:*

*‘ I practice inaction, and the people look after themselves. ’*

*But from the Sage it is so hard at any price to get a single word*

*That when his task is accomplished, his work done,*

*Throughout the country every one says: ‘It happened of its own accord’”*

*(Dao De Jing, chap. 17, tr. Waley 1958)*

In Chinese history, such an approach actually promoted welfare and economic development.

Confucianism does not believe in the self regenerating power of the natural order. Instead it relies on rules and rites to ensure the stability of social life. The basic rule is filial piety (“*If the family is healthy, the state is healthy*”). Currently in China this principle is often quoted to promote social self reliance. Facing increasing social pressure, the card of traditional family support is sometimes played against the installation of a comprehensive system of public social security. Further aspects of Confucianism are also relevant to economic development:

- Respect to the superior and the idea of the righteous ruler, but decision making should be based on consensus;
- Promotion of a hierarchical social order, which often resulted in a slow pace of social innovation and reforms;
- High estimation of learning and education (but at the same time a low appreciation of physical labour and an overemphasis of academic education and formal degrees);
- Traditional Confucian education was mainly focused on literature, ethics and politics and neglected science and technology. This is another reason why technological progress in ancient China took place slowly.

While Confucianism is mainly based on rules, rites and regulations, the “*bible*” of Daoism, the *Dao De Jing* claims that there is a natural state of perfection and all social disorder arises only from the departure from this original harmony. Accordingly, the best ruler is a ruler who rules as little as possible and let things go their natural course.

As a result, in times when the emperors followed their Confucian advisers, the focus was much on state control of business life. High taxes and tariffs, and many detailed regulations for guilds and market access for traders, dominated the economic policies. Free market allocations were kept under strict state control and therefore rather inhibited. Traditional Confucian thought discourages profit-seeking (see Chen 1911). These aspects of Confucian economics lead Max Weber (see reprint 1988) to the hypothesis that unlike Protestantism in medieval Europe, Confucianism served as an obstacle to economic growth and the rise of capitalism. But Weber's view is highly controversial. Modern critics challenge this conclusion by referring to the positive role of Confucian values in fostering South-East Asian economies in recent decades.

Taoism at the competing paradigm prefers in terms of political and economic action at state of laissez-faire. Thus, in times when the ancient rulers followed their Taoist advisers, they abolished bureaucratic obstacles, reduced taxes and tariffs, and thereby created favorable conditions for a vivid exchange of commodities and services. There is some evidence that in those periods of history with Taoist impact, the welfare in ancient China increased most rapidly.

In some respect, the classical Chinese discourse on the right economic policy can be seen as first formulation of the 20<sup>th</sup> century discussion about the conflicting schools of Keynesianism and Monetarism. The leading questions followed the same patterns: Should, or in how far should, the government intervene in business life? If market stability is created by an *invisible hand*, and does an overdose of state intervention lead to crises and instability? Or, on the contrary, is the market by its very nature unstable and prone to collapsing, and therefore governmental actions necessary to prevent economic crises and to ensure stability?

I should be remarked that despite the radical condemnation of Confucianism during the Cultural Revolution (1966-1978), the Confucian demand of strict loyalty against all superiors has always been perpetuated. Starting from filial piety (i.e. respecting the will of own's father and the elderly) and stretching to state affairs (i.e. obedience against officials, the chancellor and the king), it was later simply extended to the leadership of the Communist Party.

### Buddhism

A third string of ethical thinking is Buddhism which came from India to China more than 2200 years ago. In terms of economic action, Buddhist economics should be viewed as a teaching with a subject entirely different from traditional Western economics, because it is first and foremost concerned with the motives and intentions of economic actions (see Chapela 1990/91; Gernet 1995; Payutto 1994; Wagner 2007). Whereas Western economics focuses on measurable quantities, and many of its traditional schools ignore subjective factors like motives and attitudes, the core of Buddhist economics are the mental states on which human economic as well as other kinds of behavior is based. An essential part of the Abhidhamma is the teaching about *karma* (Pali: *kamma*), how it arises, and how existence is controlled by it. In a simplified way, karma can be understood as the universal law of retaliation. Good deeds – whether in this life or the next – will result in well-being and positive states of the mind, while evil deeds will bring misery upon the performer. P.A. Payutto (1994, p. 23) states this point in his treatise on Buddhist economics as follows:

*“Every time an economic decision is made, kamma is made, and the process of fruition is immediately set in motion, for better or for worse, for the individual, for society and the environment.”*

The historical Buddha did not condemn the acquisition and possession of wealth for ordinary people, its possession is even praised and encouraged in the scriptures. But all wealth should be acquired and used in the right way. In the *Anguttara Nikaya* we find a list of wrongful trades and pathways to ruin which one should not follow. The five kinds of wrongful trade are: 1. trade in weapons; 2. trade in human beings; 3. trade in flesh; 4. trade in spirits and inebriating substances; and 5. trade in poison (see Jing 1993).

The theme in the scriptures is not wealth as such but the way it is gained and used. Harmful actions associated with wealth are seeking wealth in dishonest or unethical ways; hoarding wealth for its own sake; and using wealth in ways that are harmful to one self and others. Buddhist Economics stresses the motives and intentions of economic action and demands to take responsibility for one's actions. In difference to Taoism it is not adverse to rules and regulation. On the contrary it requests state interventions, in order to ensure social welfare and to curb human desire when its forces become harmful to nature and other beings. In philosophical respect, Buddhist economics is based on a holistic concept of man and teaches not to harm other beings. From a spiritual point of view, Buddhism considers wealth and labor as subordinated to the ultimate pursuit of enlightenment.

The actual impact of Buddhist economic ethics on the social and economic history of Asian countries is difficult to trace. Different scholars hold different views on this subject. Most of them see a relationship between the self-regenerating character, the so-called *stationary* nature of ancient Asian economies and its religious foundation, especially the influence of Buddhism with its low appreciation of material gain and spiritual approach to life (e.g. Chen 1911; Wittfogel 1977). Max Weber tries to show that Buddhism, and particularly Japanese Zen Buddhism with its focus on discipline and duty, possesses strong similarities with the content and historic function of Protestant ethics in Western societies (see Weber 1988). In contrast to Weber, the French sinologist Jacques Gernet in his work on Buddhism in Chinese society sees a rather negative impact of Buddhist ethics and certain monastic practices on the Chinese economy, which were due to an interpenetration of commerce and religion (see Gernet 1995).

Although Confucianism, Taoism and Buddhism differ in questions of economic and political action, they agree in their assessment of human nature. They all held the view that heedlessness and material welfare shall not be the final goal of life. Their common ground is that modesty and self-restraint are the pillars of true happiness. The deepest potential of human beings is to reach wisdom and to practice virtue. Thus, the very focus of these teachings is on right livelihood, an aspect which is often ignored in the current discussion. All of them share the ideas of harmony and promote social stability. In metaphysical respect, they teach a final non-dualism of matter and mind, and do not believe in the idea of a creator.

### **Business Ethics after the Start of the Reform and Opening Policy in the 1980s**

Contemporary Chinese business ethics developed in response to economic reforms over different stages. The inheritance of traditional ethics still plays a certain, but so far not dominant role (see Lu 1997, p. 1509f, see also: Hennig 2010; Pitta, Fung, Isberg 1999; Sardy, Munoz, Sun, Alon 2010). There is still some influence of Marxist philosophy and its genuine ethics of class struggle and social justice. Before 1978 the prevalent Western ethics in China was the Marxist concept of class morality. Traditional Western ethics was subsumed under the level of *feudalism* and *capitalism*. After the economic reform started, ethical questions related to business performance had to be reflected in a new manner. As a result

of the forced diversification of the economy, first private enterprises were set up, Special Economic Zones opened in Guangdong and Fujian, and individual initiatives were promoted. As the traditional scheme of values was in turmoil, there was an increasing quest for new moral standards to respond to the new emerging political and economic problems. As a first respond to this request, the *Department of Ethics* mandated formal ethics courses to be taught at Chinese universities. Two years later, the *National Society for Ethics Studies* was founded. From 1982 onward, the Periodical *Morality and Civilization* focused more and more on ethical works, including new editions of Chinese classics. Chinese scholars started to reflect on how to cope with the results and ramifications of the economic reform.

Although this might be seen as a late awareness of the ethical topic, it should be kept in mind that even in the Western world business ethics as an academic discipline emerged not sooner than in the 1970s, and it took almost a decade until business ethics journals came into existence, and research at a larger scale took place resulting then in numerous publications.

In den midst 1980s the discussion on business ethics were centered around the slogan: “*strengthening the construction of socialist spiritual civilization*”, the main topics included: economic reform and moral changes, commodity and moral development, material civilization and spiritual civilization. In the 1990s the reforms entered the stage of establishing a so called *socialist market economy*. New law and regulations accompanied the economic reform process which triggered a new change of paradigms. Former beliefs were put into question. One result was the reconsideration of traditional ethics as shaped by the conflicting relationship of *Li* and *Yi*, i.e. profit vs. the just principle of obtaining and distributing (for details see the comprehensive contribution on this topic by Lu 1997)

Following Lu (ibid), the crucial questions of business ethics in last decades can be summarized as follows: First of all a farewell to the Marxist concepts of the nobility of the poor and equal distribution of wealth. As the reform and opening policy allowed some people and areas to become richer than others, the issue of unfair distribution of income and wealth was discussed. Further related ethical issues:

- How to solve the dilemma between “good ethics” and “good business”? How to reconcile between traditional values of collectivism and a heedless individualism of a bull business? As the competitive Chinese business environment undeniably calls for unethical behavior, in order to be successful on the market, unethical conduct is often promoted. This was reflected in a discussion on the limitations of an *economization* of all spheres of life.
- In how far should ethical standards be translated in binding law. Some economists argue that business is not bound by any ethics other than abiding by the law. But the reduction of ethics to abidance by laws and customs is not in line with traditional Chinese thought. This also includes the importance of interpersonal relating, in particular the Chinese concept of *guanxi* (i.e. personal relationship as opposed to standards of universal law).
- An urgent pragmatic topics was the question of how to establish a system of social security versus a recourse to traditional Confucian values of filial piety. Furthermore, the need to strengthen the rights of unemployed workers, and to develop more social responsibility. The general answer to these questions was the concept of an *Harmonious society*.
- In recent years ecological issues gained importance. How to develop the enterprises’ responsibility for the natural environment? – How to live in harmony with nature?
- Finally foreign experience was taken into consideration. The influence of business ethics from abroad raised also the question of how to prevent China from committing the same errors in developing the country as Western nations did?

(see Lu 1997; see Pitta, Fung, Isberg 1999).

### **Future Prospects**

After decades of strict Communist leadership, since the 1980s the reform and opening policy brought high rates of economic growth accompanied with a frightening pollution of air, water and soil, and increasing social disparities. Currently there are some indications that the Chinese leadership undergoes a change of paradigms from a purely growth based economy, and almost totally neglecting its disastrous social and ecological *side effects*, towards a policy based on substantial green aims. There a visible attempts to bring the country more in line with international standards of environmental protection to ensure future sustainability. In face of the growing population pressure and still involved in the ideological pitfalls of the past, it is hard to predict, whether the change envisaged by the leading politicians will be lasting and successful. It would be desirable, if the values of traditional Chinese culture, such as seeking harmony with nature and assessing the value of life not only in material terms, could play a more prominent role in paving the country's road into the future

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