

The Ethical Line between Right and Wrong

A Study on the Limits of the Corporate Social
Responsibility in China

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Project submitted as partial requirement for the conferral of
Master of Science in Business Administration

“A reputation takes twenty years to build and five minutes to lose”

Warren Buffet

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Place: Lisbon, Portugal

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Title: The Ethical Line between Right and Wrong: A Study on the Limits of the Corporate Social Responsibility in China

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JEL Classification Codes:

1. M1 – Business Administration; M14 – Corporate Culture; Social Responsibility
2. J2 – Demand and Supply of Labor; J28 – Safety; Job Satisfaction; Related Public Policy

Keywords: Business Ethics; CSR practices in China; Sweatshops factories in China; Foreign-owned industry in China.

Abstract (English)

The aim of this expository case is to demonstrate the importance of the cultural context in the analysis of the Corporate Social Responsibility practices of an organization in China. This essay is supported by four cases of management's behavior especially common in the Chinese industrial situation at the present times. Each of these cases was analyzed individually, in which it was identified and classified the Corporate Social Responsibility practices, or the lack of them. Moreover, the cases do not belong to one specific industry, but to four different dimensions of the industrial reality. The causes and the consequences of them vary from one to another and the main challenge is to conclude what can be ethically accepted or, in opposition, considered as disrespectful for values that should prevail in all the cultural contexts.

Problem: To identify if the polemic practices documented are understandable according to the Chinese cultural history, as well as to the respect for the Human Life.

Method: The study of the opinion of Corporate Social Responsibility Specialists coming from different backgrounds, supported by international and local surveys. In essence, this subject is more qualitative than quantitative. Historical data was collected from books and articles.

Conclusion: In two of the four cases are identified unethical practices of the management that should be punished and avoided. It is also proposed the existence of 3 Core Values that should be respected independently from the business environment and a Grey Zone, which includes the polemic practices that can be understandable in relation to the cultural context of the situation.

Título: A Linha Ética entre o Certo e o Errado: Um Estudo aos Limites da Responsabilidade Social Corporativa na China

Preparado por: João P. Machado

Orientador: Amílcar Ramos

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Palavras-Chave: Ética Empresarial; Práticas de RSC na China; Realidade Fabril na China; Empresas Internacionais na China

Abstracto (Português)

O objectivo desta dissertação expositiva é demonstrar a importância do contexto cultural na análise das práticas de Responsabilidade Social Corporativa nas organizações na China. A suportar este ensaio estão quatro casos de comportamentos dos órgãos de gestão, extremamente comuns na situação actual Chinesa. Cada caso foi analisado individualmente, tendo sido identificadas e classificadas as práticas de Responsabilidade Social Corporativa neles presentes, ou a sua ausência. Os referidos casos não estão relacionados unicamente com um sector, sendo que as suas causas e consequências variam consoante o caso e o principal desafio, apresenta-se como a conclusão do que é, eticamente, aceitável, por oposição ao que é considerado desrespeitoso de certos valores que deverão ser intocáveis seja em que cultura for.

Questão: Identificar se as polémicas práticas apresentadas são compreensíveis mediante a história cultural Chinesa e o respeito pela dignidade humana.

Método: O estudo da opinião de especialistas oriundos de diferentes contextos culturais, suportado por pesquisas internacionais e locais. Este tema é, na sua essência, mais qualitativo do que quantitativo. A informação histórica foi angariada através de livros e artigos.

Conclusão: Em dois dos quatro casos são identificados práticas de gestão eticamente condenáveis e que devem ser evitadas no futuro. Pondera-se também, não só a existência de 3 Valores - Chave que deverão ser respeitados, independentemente do contexto empresarial, assim como a existência de uma área cinzenta, que inclui algumas práticas empresariais polémicas mas compreensíveis mediante a sua contextualização cultural.

RESEARCH METHOD

The method adopted to evaluate the 4 cases was the specialists' opinion on corporate social responsibility and ethics, as well as the usage of international surveys about the topic. Since this problem is not quantifiable and its context is highly influenced by the local culture, statistical data would not serve this thesis in a reliable way. I am not defending that people's opinion is not important for the conclusion, in fact, ultimately, it is the people's opinion that influence most the conclusions. Society values and culture are, not only the people's opinion, but also their beliefs; and, briefly, the ethics are inseparable from its context which is, precisely, the society and their people.

Nevertheless, the usage of specialists' opinion on corporate social responsibility and ethics was, carefully, chosen. I found important to select different authors from different countries that had studied different issues. The authors are from Europe, Asia and North America; and one of the European authors, Esben Rahbek Pedersen, is specialist in this subject from an African perspective. Their opinion was collected from essays, articles and conference's transcriptions. The confluent topics of their points of view were considered the Core Values, which are applicable in the whole world and primordial for the safety of a society; and, on the other hand, the deviant opinions were considered the Grey Zone. The Grey Zone contemplates all the actions that are discussable and dependent on the cultural context.

The literature review was supported, mainly, by books about China's actual or past social situation, about politics before and after Mao Tse Tung leadership, about ethical dilemmas in China and about the Chinese Sweatshops. Moreover, newspaper articles, magazine articles, formal conversations with AICEP's director for Macao, Miguel Crespo, and informal chats with professor Carlos Noronha and professor Dr. Kong from the University of Macao; helped me to clarify the intensity and the order of the facts.

Executive Summary

35 million years ago, the spectacular tectonic collision between India and Eurasia shaped the Himalayas and created the Tibetan plateau, the highest in the world. These elevations modified the climatic patterns, generating deserts in the North and soaking the Southeast China with the Monsoon rains. The two main rivers in China, Yangtze (that flows eastward across central China) and the Yellow river (in the Northern China), begin in the glaciers and go through different elevations towards the sea. In the East, between different range of mountains, China was a pioneer in the agriculture and in domestication of animals and plants, allowing the survival of a nation that later become, the biggest in the world. Popular Republic of China is the 4th biggest country in the world and shares 14 boundaries along its perimeter of 22 thousand kilometers. In a nutshell, China is one fifth of the world's population, inside an immense territory with a wide range of natural inequalities and sources. It is undeniable that one of the most exciting outcomes of the next 20 / 30 years that assume, not only the main character in street conversations, but also the main topic in congresses, all over the world is the question: 'Where is China going?'

The answer for this question is broadly commented, discussed but hardly conclusive. On the other hand, conclusions concerning a country's future are always mere predictions. Sometimes they are right, sometimes they are not! What analysts and critics do is just relate a future scenario based in previous similar events and on different sources of information. There are democracies, dictatorships, republics and monarchies and each political form has typical 'doings' and clichés. However, there are circumstances that cannot be foreseen. Natural disasters, political failures, bribes scandals are few examples of actions that would affect the previewed path and modify the future of a country. Surely, these examples can exist and do not affect the course of a country. There are societies more permissible, sympathetic and even tender than others. Tough if the same problems happen routinely, the future might adjust itself from what is designed. Furthermore, the country's size might account for the adjustments. An industrial bribe scandal would have, unquestionably, more impact in a country with 10 million habitants than in a country with 500 million. This last circumstance is one of the most decisive defenses for the China Communist Party. China has the world's largest industrial proletariat, roundly 300 million and, still, the working conditions obtainable are one of the worst in the world. This proletarian class is the one who struggles for higher wages and is worried in surviving corporate downsizing, as well as the

related privatization. Indeed, every small step towards self-organization or even dialogue is confronted with repression by factory owners and the Communist Party. Industrial conflicts tend to be short lived, spontaneous and violent; although they rarely achieve anything but arrestment and dismissal of the leading activists. Other boundary on the cause/consequence effect noticed in China is the media censorship. Information control has the power to keep, not only the outside world, but also the remote interior provinces of China, ignorant about the reality. The government can edit all the data they want, hiding or distorting, whether it is benefic or prejudicial for the country's leadership. The questions related to this managerial behavior are rising in the businessmen' minds in the rest of the world. Is it safe to invest in China? How to proceed, if the objective is to arrange new suppliers in China?

Highly dependable on the exportation/importation, China can suffer from other countries problems as well. There is no such thing as the 'China Market'. Nowadays, China is a patchwork of regional markets at various stages of economic development, unified as a nation although separated by differences in governance, communication challenges, regional rivalries and poor infrastructure. Without the rampant trades with other countries, specially, U.S.A. and European countries, China will face an extremely hard downfall. Again, a specialized analysis can preview some agreements/disagreements with other countries, but who will forecast the next huge natural disaster in some important country to the China's economy?!

This thesis is an expository essay about the different concepts of Corporate Social Responsibility. Therefore, I do not pretend to serve as an analyst to China's future, economically or socially, neither to present one possible major solution for any problem of the present. After an introduction about the historic situations that led to the nowadays reality, the purpose is to notice the differences on Ethics evaluation and analyze, based on international standards, authors opinions, corporate structures, intensity of markets and Asian culture. Can occidental societies consider, and consequently condemned, some procedures in China as unethical? Is there any ethical boundary that can not be crossed, no matter which culture is serving as a context for the business? Or is this all just a divergence between our definition and theirs, motivated by cultures asymmetries?

The protection the Human Dignity is an absolute necessity, especially the Human Life, and is crucial to guarantee the survival of the future generations. Although this thesis is focused

principally in the industrial behavior, minimizing the workplace security must not be acceptable, whatever the reason is. The existence of the following 3 core values: respect for the Human Dignity, respect for the Basic Right and Good Citizenship; facilitates the analysis of industrial behavior and its classification. Each attitude that would not respect one or more of these values should not be pursued. Nonetheless, the definition of these core values does not remain static and unquestionable. In addition, it is established the existence of a grey zone determined by attitudes that are recognizably ethical in one culture and unethical in other. To support a better understanding of the corporate behavior in China, there are four representative cases of the common practices. In spite of being easily classified as unethical according to the western point of view, after a one to one and extensive evaluation, it is concluded that only two of the cases are unethical.

I. LITERATURE REVIEW

The Seeds of the Economic Boom

In the last years of Mao Tse Tung's leadership, the Chinese Communist Party (CCP) was trying to implement a method that would serve as a procedures list called 'Four Modernizations'. However, his final years had been complex in terms of internal organization and confidence. The terror and the failure of the Cultural Revolution were still echoing in the Politburo and Mao became very alarmed about his fellow comrades of the CCP. Furthermore, Mao was facing a declining health state due to several diseases, namely *Parkinson* and *Motor Neurone Disease*. Concluding, with a fragile leader and a wide dispersed government, the 'Four Modernizations' did not succeeded.

In 1978, Deng Xiaoping became the leader of the Chinese Communist Party. A man, who had opposed himself to the Cultural Revolution and, in consequence, forced to retire from all his offices in the government, was back on the high hierarchy of the CCP. Intelligent, theorist and strategist, as soon as he was nominated the paramount leader, he started to launch economically sustainable plans and, with carefulness, started to break some boundaries between the Popular Republic of China and the rest of the world. Thus, in his first year as the nation's leader, Deng Xiaopeng reintroduced a much more ambitious form of the 'Four Modernizations' program. The goal was simple: Bring the Popular Republic of China into the ranks of the more developed countries by the year 2000! The so-called program was named 'Four Modernizations' due to the four principles and the four major objectives that it proposed to accomplish. The four principles are:

- Acceptance of the leadership of the Communist Party
- Adherence to Marxism – Leninism – Maoism thought
- The practice of democratic centralism
- Following the socialist road

These principles were broadcast to the nation in order to get their support. Mao Tse Tung was still fresh in people's minds and the reference to his policies was a way to achieve people's sympathy and support. However, many problems came along with this attitude. People were claiming that Deng's policy was not based on Communist principles and accused him of tricking Chinese people beliefs. Even for the foreign perception, these modifications were seen as China's turning point toward capitalism. Deng vigorously denied it by stating that he wanted to "create a socialism policy with Chinese characteristics". In fact, the reform program 'Four Modernizations' had four major objectives:

- Instituting a contract responsibility system in agricultural areas
- Reviving individual business in urban areas
- Decentralizing a substantial amount of authority to state enterprises
- Reforming the irrational price system

The objectives were ambitious and very market oriented. Issues that the CCP was entirely against some years earlier. This program was focusing the government's tools and time in encouraging people to produce more by providing them economic incentives. From this time on, wealth could be inherited, productive factory workers could be awarded with bonuses and the unproductive factories would be closed. Metaphorically, this was a political stab on the communist ideology that had characterized Mao's years. The whole concept of progress through class struggle, which had been so important to the Maoist variant of Marxism – Leninism, was explicitly repudiated. Experts were no longer to be despised. The cult of personality was, unofficially, dead. Despite the communist principles announced, Deng was adopting capitalist ideas, disguised by the constant government announcements that the communism would prevail.

Agricultural Reforms

Deng Xiaoping, who was criticized during the 'Cultural Revolution' for forgiving capitalist practices, determined that the agricultural sector lacked dynamics and profitability. Since they were, in reality, no longer a Maoist society, Deng coordinated the credit availability to the farmers, in order to boost their performances and their efficiency. In 1979, 14% of the state budget was dedicated to finance the rising of the agricultural sector.

The free markets were, again, possible and encouraged by the government who stated that the production above the state quota belonged to the farmers. With this new policy, they could choose whether they would sell those exceeding products or keep them. Subsequently, the prices rose up, which made the products more profitable.

Another decisive policy was related to the autonomy handed by the government to each province to manage their agricultural activity. It was given to the village cadres the right to dictate the terms of land contracts and choose the people who would run village enterprises. In conclusion, the CCP was, not only allowing, but also endorsing the formation of landlords, a social position highly criticized and repulsed just a few years before.

The Private Sector

The private sector was an antagonist symbol of China's last years. The sudden availability of credit and the governmental advertising for entrepreneurship confused people. At first, people hesitated in stepping into the private sector due to the fear of another change in the party line. The 'Anti-Rightist Movement' had its origin in a promoting openness of speech and in a fake interest of the CCP in listening to people's opinion and the outcome was the arrestment and execution of everyone who seemed to have capitalist ideas. This movement happened in the early 60's and the imminence of a remake scared the Chinese people. The naïve attitudes during the movement were a mistake, and commit them again would be an even greater mistake. Nevertheless, as the time went by, some Chinese men attempted on doing business as entrepreneurs. The first ones to risk were unemployed people. Their businesses were often related with taxi cab fleet, restaurants and bicycle repair shop. Since these men succeeded, it encouraged the society to do business, to employ themselves on private companies, increasing competitiveness, efficiency and, consequently, pushing forward China's economy.

In a nutshell, we can conclude that, in what concerns the privates sector, this program was a success. In 2004, 55 Million were employed in the private sector, contributing to build a private sector with more quality and more availability than the state sector. Actually, in 1998, an individual who owned a private company received the official designation of 'Model Worker'. Nothing could be more distant of the Maoist ideals than this.

The State Sector

The state sector would no longer proceed under the same restrictions and rules. The factories which weren't profitable would no longer be subsidized. In Party's opinion, this policy would serve as an incentive for companies to commit themselves harder to produce goods that people found attractive and wished to buy. The first results were quite impressive. The majority of the workers put more efforts into their jobs and found themselves rewarded with more money and, suddenly, there were more consumer goods available in the stores. It was one more step towards the disguised capitalism and it was beginning to flourish. On the other hand, the new unemployment subsidies to pay and the legal rights to respect led the companies' path to two possible ends: either they did not respect the law, or they would end up in bankruptcy. They became less profitable with the rise of the state legal labor costs. This situation did not get any better and in 1990, the huge losses of the state companies absorbed nearly a third of the government revenue.

To save employees, rather than using the subsidies to reward the hard workers, businessmen were dividing them among all the workers. Logically, the trust on those financial incentives decrease, as well as the trust on the state industry began to lose recognition amongst the labor force. In consequence, people started to put less effort in their jobs and, the majority of them, also started to look for job opportunities in the private sector. This attempt to smash the iron rice bowl was failed and everyone continued to eat from the same big pot in the state sector.

In conclusion, not only the ballooning of the private sector was successful for itself, but also the failure of the state sector reform policies confirmed that success.

Reforming the Price System

The transition from one price set by the central government planners to one that would reflect the needs of the supply and demand practice was, probably, the most important reform on the 'Four Modernizations' scheme. It was the source of the most significant developments in the Chinese industry in the last half century.

The price system reform was a complex process, characterized by long and doubted phases. Especially in the middle stage of this process, speculation and hoarding reigned over the interventions. This reform consisted in allowing two prices, the one set by the government and the one resulting from the demand and supply. Usually the Demand-Supply price was higher, so there were a lot of people who bought every item at market prices, in order to sell them, after, at the D-S prices. In a short term, these practices led to shortages of raw material and energy. China needed those resources and, ultimately, began to import them in the 80's. The importation pace was high and the exportation level was insufficient to compensate it, therefore, the country's trade balance deteriorated and an urgent necessity to balance it, came on Deng's table. Following some debates in the Politburo, the Chinese Communist Party launched some measures to face the unbalance. Briefly, those measures were related to new incentives granted to state companies to help them exporting their products. The industrial sectors chosen for the prime incentives were the coal industry, the silk industry and the cotton industry.

Although the exportation level rose at an unprecedented cadence, the companies started to focus mainly on international markets, where they could sell at much higher prices. In result, China was, again, dealing with a shortage in the domestic market. This time, a shortage of those products, previously mentioned.

Regional disparities began in this time. The time zone is the 80's and the Chinese government had started to invest in the areas in which it could get more turn over. The area chosen was the coastal area. In a matter of efficiency, logistically and geographically, the coastal zone was the target of these investments. Beijing, Shanghai, Hangzhou, Fuzhou, Guangzhou and the British city of Hong Kong, were the engine of the new China political and economical breath; and they are all coastal cities. Once again, Deng Xiaoping instigated a new policy totally against Mao's principles, specifically, the one which states for the equally distribution of the wealth.

The high revenues and profits of the first trades served as a powerful response for the opponents of this measure. Since the Cultural Revolution that the Chinese government hadn't had money to govern comfortably the nation and a rapid export rise were encouraged on a growing scale. Only the Tiananmen Massacre in June of 1989, the large-scale corruption and the uncontrolled inflation (it shot 18,5% in 1988) jeopardized the full success of this governmental plan, however, not as much as occidental societies believe.

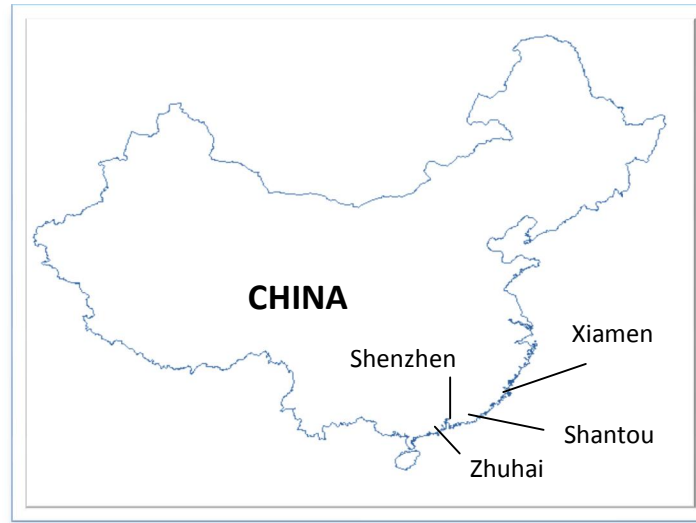
More skilled workforce, more modern factories and the easy access to ports and railways from the outside world (foreign part) in the coastal zone were the main reasons for the maintenance of those incentives. As the time went by, the incentives developed into higher and more constant amounts. In addition, better access to credit and better access to foreign exchange were gained. On the other hand, a greater independence from Beijing was conceded. Each China province had, now, more control over the businesses established in their area and also over the taxes generated from the business activity.

Guangdong, the southern province of China, well-known for its capital Guangzhou (Canton) and for its international neighbor regions of Macao and Hong Kong, was the first to become more independent and the one which changed more quickly than anywhere else. The year was 1979 and since Guangdong is far enough from Beijing, this region was the perfect place for an experimental economic scheme. Any unintended consequence could be contained by the local leaders and the close relationship of this province with its two neighbors were an aspect that Beijing saw as a first step in the search of international business partners, especially with Hong Kong. As a result, Guangdong province acquired a special status!

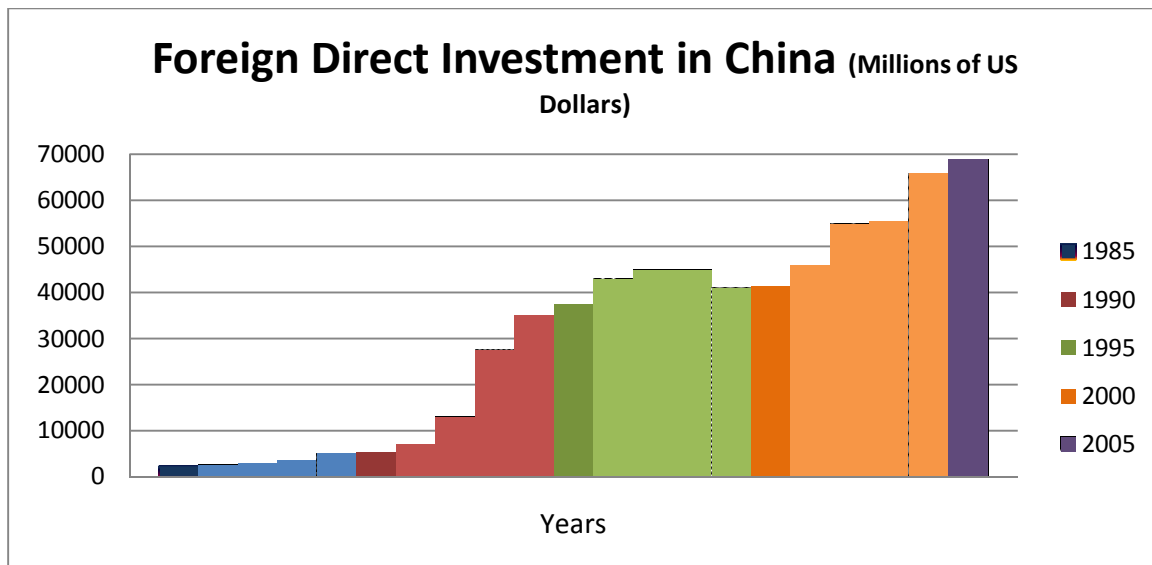
More freedom to control its economic sectors, more freedom to set wages and more freedom to set prices shaped the new special status. The CCP wanted to try a new system in which the control would be more decentralized, half-way to a free market, preserving the control over the people and over the nation's social, political and cultural issues. This southern province seemed to fulfill the requirements and became the staging ground of the Communist Party first large-scale experience with capitalism. In other words, Guangdong served as a tube test for what could be a revolution in the Chinese way of doing business.

To endorse its status, in a parallel time zone, Deng Xiaoping formed 3 'Special Economic Zones' (SEZ) in Guangdong province, Zhuhai, Shantou and Shenzhen. Besides these 3, it was created another SEZ in Xiamen, in Fujian province, a Guangdong's province neighbor. Though, it was explicit that Deng Xiaoping had a strict and well defined strategy to promote China and the pros of doing business with this country, worldwide. With more liberal economic laws than the rest of the country, a SEZ was also complemented with a wide range of denominations. Free Trade Zones (FTE), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Free Ports (FP) and Urban Enterprise Zone (UEZ) were some of the tools created to allow a greater

flow of business and trades among the international business partners. Besides, there is a public-private partnership on the SEZs since the day one. The public sector provides different types of support (Equity investments, soft loans and bond issues) to smooth the business processes and enable the private sector of obtaining reasonable return-on-investment (ROI) in the projects.



In conclusion, the early 80's were the seed of the new economical era in China. Structures were created, giving investors tax concessions, in exchange of revenues and technical knowledge. Mutual dependence began to be developed, with China depending on the foreigner investment and the foreigner investors depending on China's conditions.



Sources: The World Bank.

Private and Foreign-owned sector – conditions, causes and consequences.

“Perhaps, the greatest competitive advantage that foreign invested enterprises enjoy in China is a lack of government interference”.¹ In the Chinese private and foreign-owned sector almost total deregulation reigns. Companies cheat, bribe and bully their way on laws that the state sector cannot. Overtime work, child labor, minimum wages and disrespect for the environmental standards are more flexible in the private sector. Almost 60% of the factories have recognizable *quid pro quos* concerning these issues and the Chinese government lost this matter’s control long ago.

The ‘Four Modernizations’ policies were focused on the results, the development process completed and its exemplary status by the year 2000; and also in the concessions that would endorse it. Nevertheless, those concessions were not peaceful and popular among the least accredited social class, the peasants. The early 80’s were piping hot and the benefits to attract foreign investment needed to be stretched out. Desirable injections of capital were imminent and Chinese leaders just needed to be flexible and cooperate with the enterprise managers. Consequently, besides all those benefits previously discussed, a much more judicial tolerant processes were assumed. On average, foreign firms pays only one third of the taxes that China domestic companies pay. Moreover, the record of the workplace injuries is higher on the foreign owned companies than the domestic company’s one. In fact, the domestic sector only accounts for less than 5% of workplace accidents.

Foreign capitalist enterprises invest in China mainly because it is not a democratic country. Politically steady, the Chinese Communist Party does not allow workers to strike, to join an union or challenge ‘investor’s friendly’ policies; and the ones who tried, were repressed violently. The labor force is in a constant pressure to work faster. The life of China’s poor majority is micro-managed through an oppressive regime of rules, surveillance and penalties. The government decide where they can live, work or study. They even decide how many children they can have. Succinctly, China government is authoritarian towards people, but libertarian towards money. In one of the most deregulated environment for business, this path is what ‘keeps the car running’.

¹ Vincent Kolo and Chen Lizhi, *China: Sweatshop of the World* (2008), pp.5.

The legal records and paperwork are other subjects that infuriate the workers in the foreign owned sector. In other words, what infuriates them more is the lack of those records. They are kept to a minimum with the intention of saving the managers from legal obligations and despise the employees of legal protection. Without governmental support, it becomes harder to claim for justice and for better working conditions. “Only 1/5 of the workers in China have written job contract”² and given this lack of legal documentation and, as a result, legal rights, employees in the foreign owned sector are at the mercy of their employers. This scheme acts like a chain due to the fact that employers are at the mercy of foreign corporations, who are at the mercy of their customers. As I will describe ahead in this thesis, ultimately, this behavior is caused by the demand in the selling points and infest the whole process of the production with unethical attitudes. “This is a way of surviving” is a common excuse that managers use to defend themselves and their companies. The problem of China is not the lack of National Laws, which are plentiful; it is the lack of legal enforcement!

In the private sector, all over the China, the minimum legal wages are set by the local governments. On 1 March 2004, the *Ministry of Labor and Social Security* set the first minimum wage law for mainland China. “To ensure the basic needs of the worker and his family, to help improve worker’s performance and to promote fair competition between enterprises” were the prime motivation of the *Regulations on Enterprises Minimum Wage*. Though, provinces, municipalities and autonomous regions are allowed to legislate for their own minimum wage, separate from the national one, according to their needs, employable capacity and industrial characteristics. Since China is divided into provinces, which are divided into municipalities, the national minimum legal wage is useless and merely figurative. Besides, factory bosses have some alternatives to reduce the amount of capital expended in worker’s remuneration. To undercut the minimum wages laws, managers have as a current practice:

- The appliance of penalties for disrespect of the factory harsh rules. Factory’s managers elaborate a complex procedures list, sometimes absurd, to save money on the payroll due to the fines applied to those who did not act in tune with that list,
- The payment of the factory uniforms. When the employees are recruited to work on the factory, they have to pay the uniform that they will use on their journey. The payment can

² Vincent Kolo and Chen Lizhi, *China: Sweatshop of the World* (2008), pp. 9.

be either in cash, or in constant discounts on the salary and it will not be refunded when they leave the job. Employee can not also take the uniforms with them,

- The cost deduction for accommodation and meals. Since the majority of the workers are from rural zones of China, they absolutely need to stay in the dormitories of the factory. Furthermore, they have to do their meals on the factory complex. Those costs are, often, charged in deductions on the salary,
- The factory's contract did not recognize any right for the workers to take time-off,
- The existence of a bail that goes to the company if the worker decides to leave it. This measure is a powerful technique to install discipline and reduce the staff turnover.

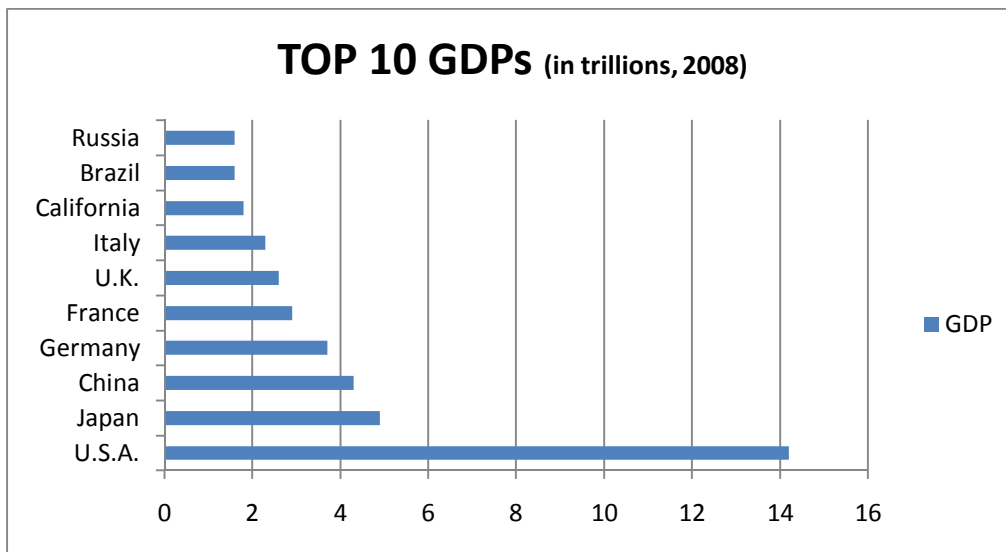
These measures are the most common among the companies and their respective factories, specially, in the coastal zone. Each company has the liberation to establish their own set of rules and, if they do not pay the wages on time, although it is illegal, the fines are so low and the regulatory authorities so weak, that the companies do not concern about those timelines. In fact, this practice is widespread due to the easiness of the system.

Extreme cases are now usual. 'Jump Protesters' or as they are known in China, 'Tiaolou Xiu' are migrant workers who jump off the top of the skyscrapers that they had built, in a desperate last protest over the absence of wages payment. Many of the construction workers don't even know who has the responsibility over their salary and they often think of committing suicide. This social manifest is a consequence of the previous practices and is becoming as general and daily as their causes.

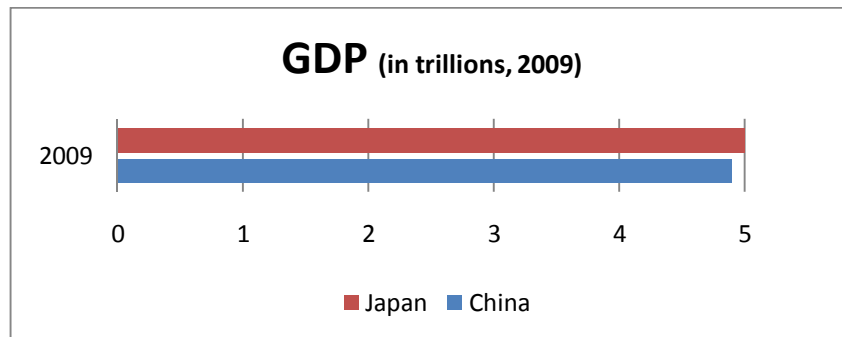
As the local governments establish even deeper connections with domestic and foreign capital, the central government's control is diminishing. These conditions are preparing the route for an explosion of a working class struggle in China. As a U.S. executive told to business week, "In a crisis, Chinese labor could become as a destabilizing factor for the world economy as the oil prices". Demanding from the working class and the poorer social groups of a society for a greater financial support and conditions respect, can trigger a major social movement in the period ahead. In France 1968, in Iran 1978 and in South Korea 1986, a revolutionary upheaval finished the growing frustration and dissatisfaction of workers. History has seen some societies undertaking rapid industrialization that, in one moment, turned into a social turmoil. The idea of seeing China in this position does not seem incongruous.

China in 2010 – Actual Economic, Social and Environmental Situation

2009 was the year that China overpass Japan as the second largest economy in the world. This moment was the most recent climax of a long term plan launched by Deng Xiaopeng in 1978. Two reasons are fulfilling China's pride for this achievement: The second place in the economies world ranking and the sense of victory against Japan, a well-known long-term political enemy of the Popular Republic of China.



Sources: World Bank; Bureau of Economic Analysis; Next 10; U.S. Census; TIME Magazine, Nov. 2009



Sources: thestar online

Although Japan's annually Gross Domestic Product was higher than the Chinese, in the fourth quarter, China produced more goods and services than Japan and, consequently, China's GDP was higher in that specific quarter.

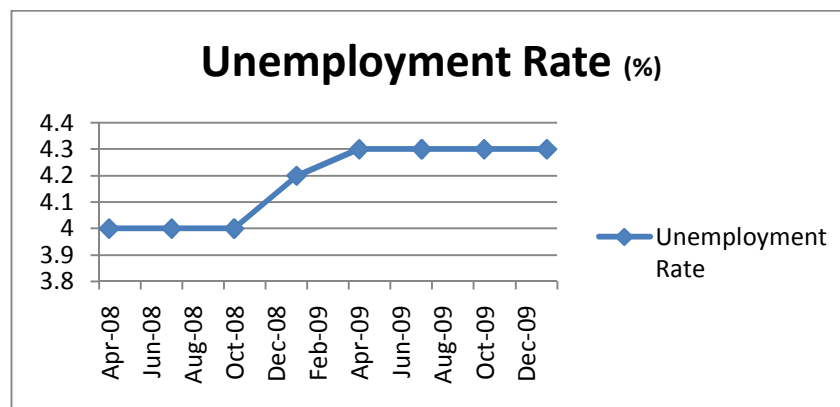
Nowadays, China's performance in the economical and financial world panorama is astonishing, mainly for three reasons. Firstly, the economic rampant growth of China, that is boosting the world's economy; secondly, because its industry of products is sustaining the world's demand; and the third reason is due to the fact that China has the greatest amount of reserves in the world, in which, a portion of those are invested in United States long-term treasure reserves.

Simultaneously, China's economy is still experiencing a process of evolution in three aspects. Transitions from a state and planned economy, to a private owned economy, in other words, a *Free Market Economy*; from a rural economy to an urban economy, based on services and industry; and finally, from a domestic economy to a more opened one, based on the trades of goods and capital, focused on Import/Export procedures.

Undoubtedly, China is an economy that has been suffering one of the most incredible growths of all time. The position in the international context is getting stronger as well as the foreign investment that does not seem to slow down. In 2008, *The Economist Intelligence Unit* foresaw that, according to the severe economic global crisis that the world was facing, the Growth National Product in 2009 would decrease to an estimate 7.2%. Yet, this percentage is an excellent score for a country that is rising for more than 30 years, however, that would mean a significant decrease in the average. Flash rewarding to 2007, when the GDP was 13.1% and the first signs of an economic breakdown appeared, Chinese governments reacted. During 2008, the state economists were planning how to keep the growth in such harsh conditions. Concluding that an increase on public consumption and investment would be imminent, as the private consumption decrease, Chinese government supported financially the more sensitive sectors of the industry with a 580\$ billion stimulus package. The banking sector was also more reachable, remaining largely unscathed. The 1.9\$ trillion in foreign exchange reserves provided a comfortably position to surpass this world crisis. It may seem a privilege, but, in fact, it is just the result of the Chinese economist's efficient performance and politician's bravery in the years before.

The inflation was on the government's table in 2007. Problems with the food sector triggered an inflation of 4.8% in that year and, on February 2008 it rose to 8.8% (the biggest growth in 11 years) due to problems attributable to the bad weather. Thanks to the Olympics endorsement, the inflation was balanced to 5.8%. Finally, on February 2009, China registered deflation again. Three months later the inflation rate was -1.2% and continue to decrease until August. On March 2010, the inflation rate was again positive, 2.7%. The zigzag did not bring any national problematic issue, although it had affected some fractions of the society.

Yet, the financial crisis was felt, mainly in the labor force. The unemployment rate rose from 4% to 4.3% (still, very far from the 10.3% previewed by the EIU) and continued its growing path that began in 2006. Rephrasing, the economic growth rate has been slightly decreasing and, consequently, is in the origin of the migrant workers recent social turmoil: The unemployment!



Source: National Bureau of Statistics

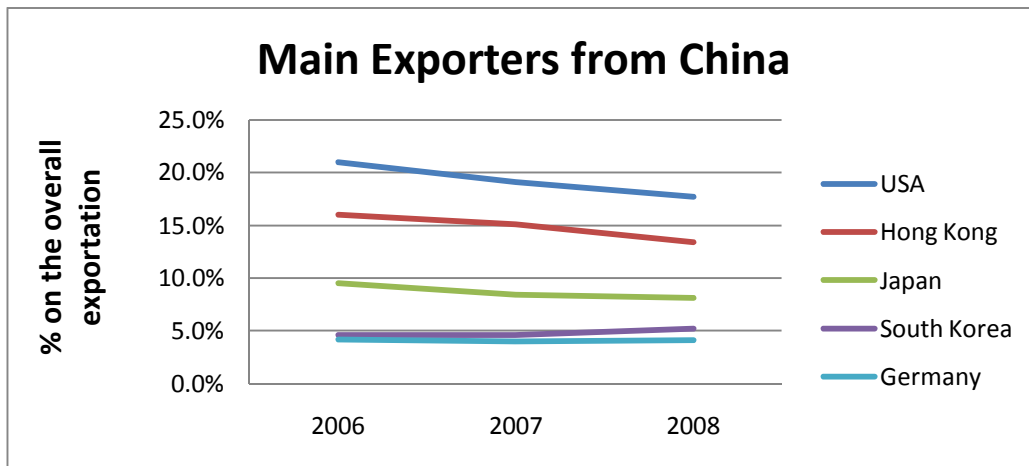
In 2007, 1.2 Million of university graduates out of 4.13 Million failed to find jobs, which represents 29% of the newbie graduates in China. One year after, in 2008, the number of students who became unemployed that just concluded a degree rose to 1.5 Million of people. The Chinese Academy of Social Science (CASS) stated, in a online press conference, that a quarter of the 6.1 Million college students that finished their under-degree programs is expected to have great trouble to find jobs in 2009. Specifically, this rate represents the same 1.5 Million of 2008, which can be supported by the previous graphic of the national unemployment rate. Their disappointed expectations represent an additional burden to the Chinese state that already has to deal with the

challenges of the unemployed migrant workers of the coastal zone that refuse to return to their hometowns.

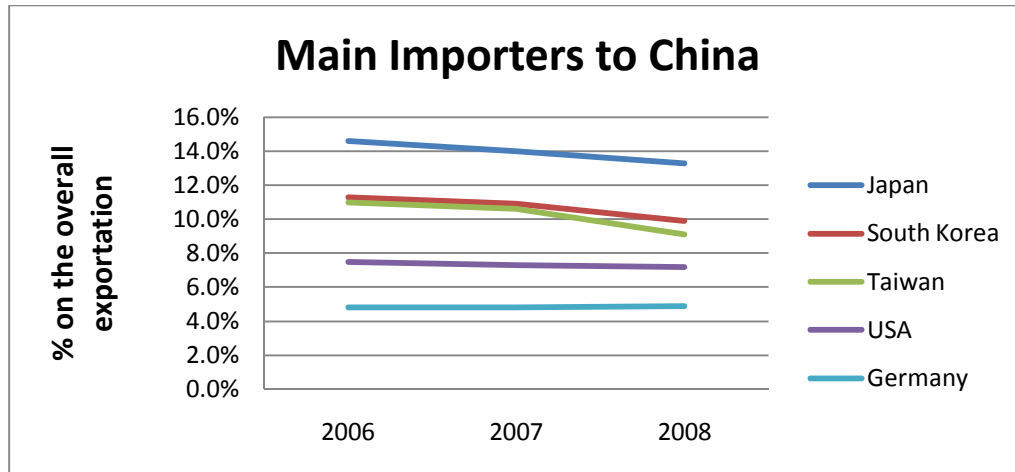
International Trades

Between 2004 and 2008, the exportations rose 142% against the 101% of the importations. In 2008, the exportations value was 1,434.6 Billion of US Dollars, while the importations value was 1,073.9 Billion of US Dollars. As a result, the commercial trade recorded the best result in 5 years with 360.7 Billion of US Dollars.

The foreign owned companies in China contribute for 57% of the exportation value of 2007(when in 1992 contributed only 20%). Since China assumed itself as the world production base, more than half of the importation value is a consequence of those foreign company's requirements, for instance, raw materials and manufacturing equipment.



Source: World Trade Atlas (WTA)



Source: World Trade Atlas (WTA)

As we can analyze, the 5 main importers and exporters kept their positions in the last three years, although the first three trade partners in both occasions, lost a small percentage of their market share.

Exportation sector (on the total)	%
Electronic devices and machinery	23.9
Mechanical devices and machinery	18.8
Wool Apparel	4.2
Iron and steal	3.7
Apparel (without wool)	3.7

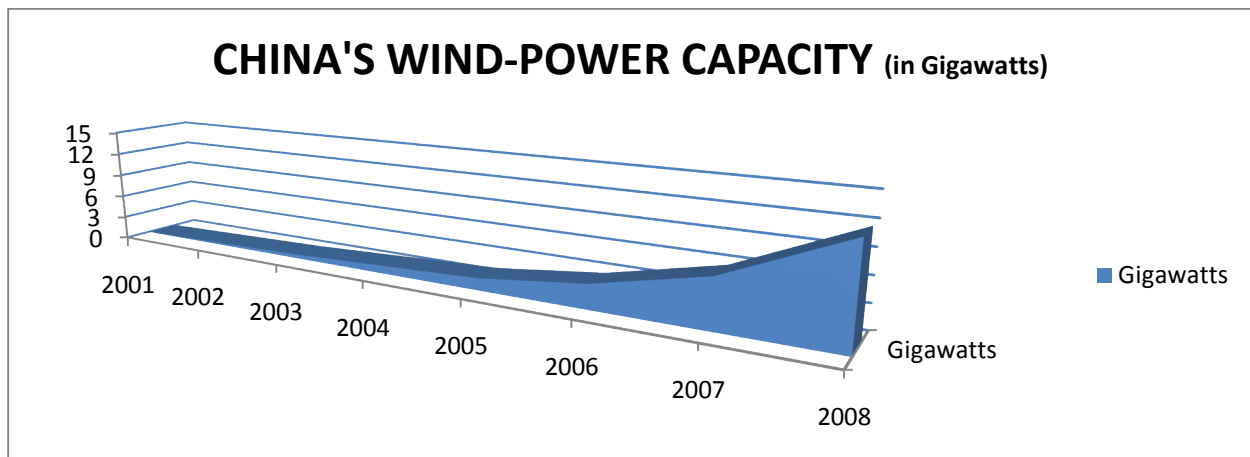
Importation sector (on the total)	%
Electronic devices and machinery	23.6
Mineral fuels	14.9
Mechanical devices and machinery	12.3
Minerals	7.5
Optical instruments (photography)	6.9

The manufactured products represent the majority of the exportations. In the last two decades, the Chinese exportation structure raised from a based textile products scheme to the exportation of electronic and mechanical devices manufactured in China. These two sectors represent 42.7% of the total exportations

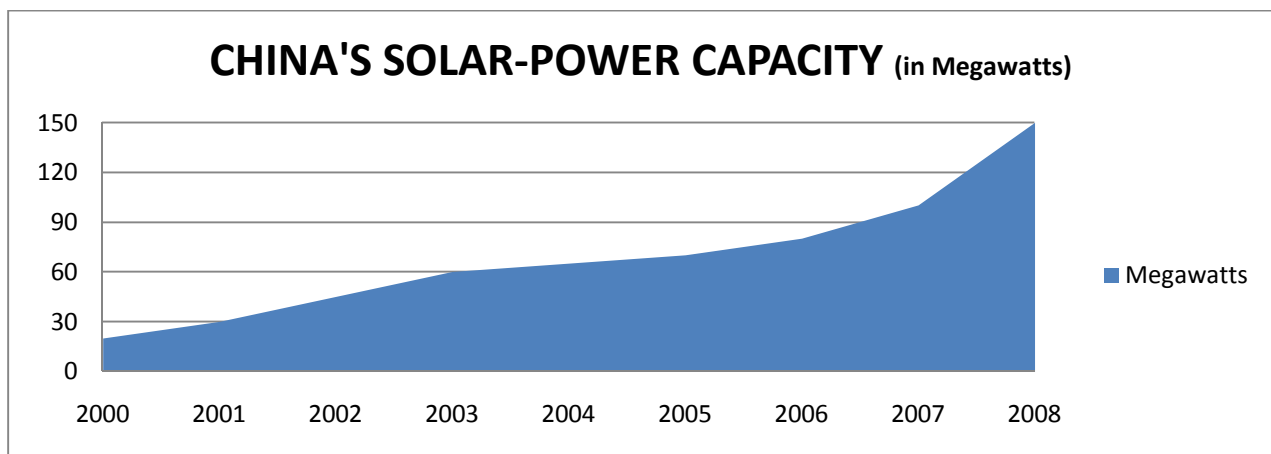
Due to the rapid industrialization, China became one of the top importers of a wide range of fuels, mainly oil. The high scale consume of raw materials oblige the companies to search abroad because China is lacking raw materials. The appearance of the optical instruments in the fifth place is

curious, yet understandable. The photography is the number one hobby in China and the most acclaimed brands are Japanese.

As a consequence of the voracious appetite for sources of energy, the Chinese government has recently made some gigantic investments in green and renewable energies. The developments of China's solar and wind industries have been growing quickly, in the last years. Though, this development is being held back and distorted by the demands of the global and the Chinese capitalism. They are causing investment bubbles, over-capacity and extreme imbalances. While China is now the number one producer of solar-cells and wind turbines, the vast majority of this production is exported, mostly to advanced capitalist countries enabling them to perform better results in the environmental friendly rankings. Still, China is also improving in these rankings and the central government efforts are visible.

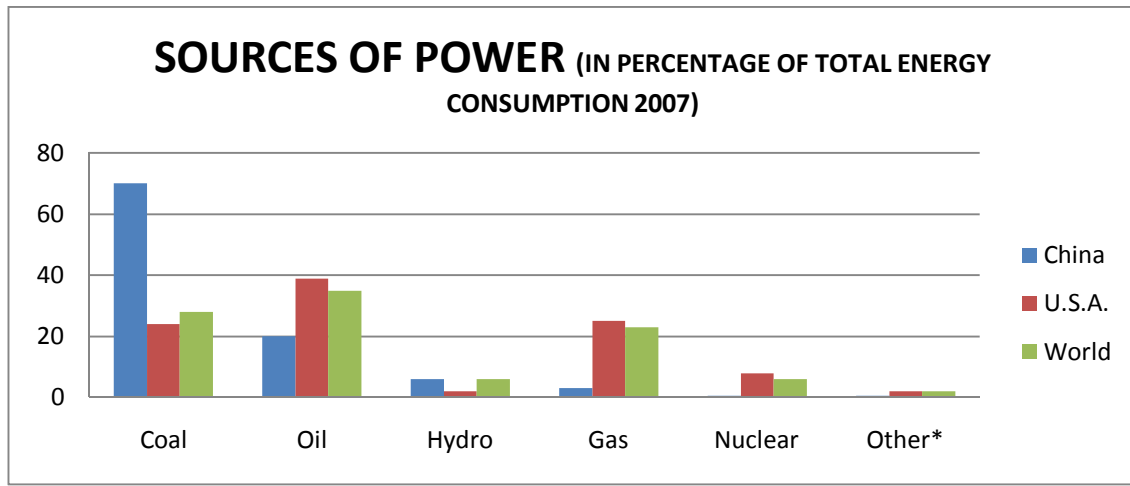


Sources: The World Bank; BP Statistical Review of World Energy June 2009; Energy Information Administration; The China Greentech Initiative Analysis; China Wind Power Report; Renewable Energy World. *Includes solar, wind, geothermal and biomass



Sources: The World Bank; BP Statistical Review of World Energy June 2009; Energy Information Administration; The China Greentech Initiative Analysis; China Wind Power Report; Renewable Energy World. *Includes solar, wind, geothermal and biomass

The Chinese government target for 2020 is to have the capacity to produce 100 Gigawatts in wind power and 150 Megawatts in the solar power. Nowadays, renewable energy accounts for less than 1% in the total energy consumed, however, with these investments, the Chinese government pretends to achieve the target of 15% of the energy consumed in China, exclusively from renewable sources by the year 2020.



Sources: The World Bank; BP Statistical Review of World Energy June 2009; Energy Information Administration; The China Greentech Initiative Analysis; China Wind Power Report; Renewable Energy World. *Includes solar, wind, geothermal and biomass

The usage of coal as China's main source of power, has contributed to an unprecedented environmental destruction. It represents 76% of the total energy consumed and its production causes acid rains, smog, respiratory diseases and, ultimately, it contributes in a large scale to the global warming. Every new week, a coal-fired power station comes into service somewhere in China.

Actuality, China has overtaken the USA to become the world's biggest polluter and the main driver of the climate change. The United Nations (UN) alleged that, unless drastic measures were taken, the temperature will rise in the next 8 years to a disastrous level. According to Pan Yue, State Environmental Protection Administration (SEPA) second in command, "we are using too many raw materials to sustain the growth. To produce goods worth 10,000\$, for example, we need 7 times more resources than Japan, nearly 6 times more than USA and, perhaps the most

embarrassing, nearly 3 times more than India”. China has been very dependent on coal and oil, highly pollutant fuels, and its efficiency has been very low. Nevertheless, its environmental dramatic position is not only a cause of the unsustainable politics of the CCP. As John Sauven, Greenpeace director said in an interview, “responsibility for China’s soaring emissions lies not just in Beijing but also in Washington, Brussels and Tokyo...all we’ve done is export a great slice of the west’s carbon footprint to China and today we see the result”. John Sauven focus on interesting point, stating that the pollution in China is not only from Chinese companies, but also a great part is from the foreign owned factories that were decentralized from the originary countries because of their pollution limits and their expensive fines. Furthermore, against international critics, China government defend itself by stating that, the CO2 emissions of a Chinese individual is 4 to 5 times less than an American one.

China has, traditionally, been a country in which, the pollution pressed hard against existing land and resources, resulting in a substantial amount of environmental degradation. When the CCP took the country’s power, their policies were directly towards the rapid industrialization showing, in most of them, little concern for the environment’s safety. For decades, this kind of problems were not even discussed in the Politburo, much less were dealt. As a matter of fact, people were aware of it, although the previously topics were too important to be shared with some minor environmental issues, especially far from Beijing and the Coastal zone. Through some secondary policies taken to protect the environment in between, environmental degradation became a matter of public concern only by the end of the 1980’s. In 2010, one of the major problems of China is the water pollution and the shortage of unpolluted one. The imminent threat to public health comes in several directions and, sometimes, disguised.

Water Consumption 1

USA (2010)	Japan (2010)	China (2010)
2,500 cubic meter per capita/year	1150 cubic meter per capita/year	700 cubic meter per capita/year

Source: Water Footprint Organization

Chinese industry and agriculture are also hugely water wasteful. They require 10 times more water than Japan and 6 times more than South Korea to produce one unit of Gross Domestic

Product (GDP). At last, GDP is being cut down with the pollution that enables more sectors of being productive. However, China GDP's will always suffer. On one hand, if the pollution level remains the same, China will be running out of water in a few decades; on the other hand, the adoption of sustainable economic measures to allow China's society a future, will force a decrease in the water pollution and in gas emissions. In both cases, GDP will have to readjust itself, either partly or substantially. Pan Yue goes far and warns, "this miracle will end soon because the environment can no longer keep the pace. 5 of the 10 most polluted cities worldwide are in China". In fact, according to TIME magazine, only 2 cities are ranked in the top 10 most polluted cities in the world.

Cities	Rank
Linfen, China	1
Tianying, China	2
Sukinda, India	3
Vapi, India	4
La Oroya, Peru	5
Dzerzhinsk, Russia	6
Norilsk, Russia	7
Chernobyl, Ukraine	8
Sumgayit, Azerbaijan	9
Kabwe, Zambia	

Source: TIME magazine online

Pan adds that acid rains are falling on one third of the China's territory; half of the water in China's seven largest rivers is completely useless; a quarter of Chinese citizens lack access to clean drinking water; a third of the urban population is breathing polluted air; and he concludes by stating that less than a fifth of the garbage of the cities is treated and processed in an environmentally sustainable manner.

"China is quenching its thirst by drinking poison". The author of this statement, Hu Jia, a well known activist was arrested when he publicly said that. Nevertheless, it sums up very well the Chinese water problem. 400 in 600 cities face shortage of water and around 700 million people consume water contaminated with animal and human excreta that exceeds the maximum level, in China. The World Bank has also warned that, unless present trends are reversed, by 2020 there will be 30 Million refugees due to water problems in China.

To conclude, the economic growth has brought a desire of higher standards of living and a higher level industrialization; nevertheless, these facts have led to intensive exploitation of existing

resources and a worrisome deterioration of the environment. On the other hand, the enormous nature of the necessary policies to balance the environment and maintain it sustained, make it doubtful to happen soon due to the lack of compliance, not only from the central government subordinate units, but also from the common Chinese citizens.

Consequences of the China's 'Economic Miracle'

Nowadays, except a few contradictory voices, most of the capitalist world still states that Chinese economy will continue to grow exponentially for a long time. Based on the recent worldwide crisis incredible survival, a large number of occidental analysts still believe that it is possible to happen. However, the national critics and an intellectual class that is getting bigger everyday reveals that this perspective is extremely unlikely to happen due to the growing social and economic contradictions in China.

The rate of economic growth in China over the last 30 years has been remarkable. Nevertheless, this has only accentuated the rising inequalities between regions in China, which remains as a major cause for the uneasiness in the high levels of Chinese police-making. Only few segments have benefited from the same levels of prosperity. The southeast zone and the neighboring areas of Beijing and Shanghai are, in fact, the ones which really testify the pros of such an industrial boom. Evidences suggest that development in coastal areas comes at the expense of the interior while much of the policy designed to boost the interior, actually, flows to the coastal provinces.

The capital flows, the foreign investments, the international trades and the transnational corporation that use China as the final link to the Asian global production chain are trapping this country inside the global capitalist system. Since Deng Xiaoping took the power over a broke and disorganized nation, that Chinese government is almost exclusively focused in developing itself economically and financially. A prime importance in the International scene became a reality and, not only China's leaders, but also world leaders were too occupied in this matter to observe the mutations and the necessities of the Chinese people. The serious mess of China's so-called 'Economic Miracle' is being, slowly, revealed to the world, as well as its basis, causes and consequences.

Penal and Social specificities

The penal system in China has been stabilized for decades and has not been considerably reformed in the last 30 years. For those who are convicted, a high number of different sentences may be applied. In the current days, 68 crimes are punishable by death, including non violent crimes such as, luring women into prostitution, damaging state property and embezzlement. In fact, China carries out almost 90% of the world's executions. Countries like Iran and Iraq, even though they have much smaller populations, accounts only a tenth of official Chinese totals. Although the official Beijing statistics claims for a total of 1700 in 2005, Chinese legal scholars affirm that the number might be closer to 10,000. In the Amnesty International article of 30 March of 2010, the conclusions of the death penalty reports are clear about the necessity of China in ending the secrecy surrounding sentences and executions. The *Death Sentences and Executions in 2009* reports 714 deaths by execution in 18 countries, but underline the omission of the realistic Chinese records. The differentials between official, unofficial and international records are again incredible and enough to boost totally different conclusions about the same topic.

Until the final years of the 90's decade, the usual method of execution was by a bullet to the back of the head, with the family of the offender billed for the cost of the bullet. Sometimes, families only acknowledge about the execution when the militaries knock on their house door to charge the bullet. Since the lethal injection method was adopted, criminals were no longer to be paraded through the streets on their way to the execution grounds.

In opposition to the rest of the world, the support of the death penalty has been growing in the Chinese society. China's citizens believe that it is necessary to maintain the order and the security of the country, symbolizing a deterrent against the more serious crimes. Moreover, the Chinese people are usually perplexed at hearing that, in some countries, death penalty is considered cruel and unnecessary, organizing campaigns towards the consistent appliance of the severe penalties.

Concluding on the penal system, we can firmly state that here is one more example of how Chinese society evaluates an event in a totally different way in comparison with the occidental societies. The respect for the human life is influenced by the individual's behavior, leading

security and the unity of a nation as an utmost priority. Unfairness and injustice is part of this process and this type of punishment is ‘only’ a consequence of a forbidden attitude.

Minorities

The fall of the Maoist social net reinforced, indubitably, the segregation between the ethnic groups. Minorities of the interior, in particular from the North West, suffer higher unemployment, worse poverty rates and lower life expectancies than the China’s average individual. Despite the rapid economic growth, its benefits are extremely unequally divided across China as a whole. In fact, the 56 Chinese minorities can be included in the less rewarded group.

Minorities Shown left to right descending by population				
Han	Zhuang	Manchu	Hui	Miao
Uygur	Yi	Tujia	Mongolian	Tibetan
Bouyei	Dong	Yao	Korean	Bai
Hani	Li	Kazakh	Dai	She
Lisu	Gelao	Lahu	Dongxiang	Wa
Shui	Naxi	Qiang	Du	Xibe
Mulam	Kirgiz	Daur	Jingpo	Salar
Bulang	Maonan	Tajik	Pumi	Achang
Nu	Ewenki	Jing	Jino	De’ang
Uzbek	Russian	Yugur	Bonan	Menba
Oroqin	Drung	Tatar	Hezhen	Gaoshan

Source: Paulnoll online

- China has some other unspecified or unclassified nationalities that accounts for 1,072,642 mainland habitants.

Agriculture is the main professional activity among nearly every one of them and, as it was previously revealed, is being relegated by the government for a secondary plan. The last recognizable effort by the CCP to balloon the agricultural sector was in 2006, when they increase 14% in the budget spendings on agriculture to 339.7 Billion Yuan. Even so, those spendings were not very far among the 745 million peasants.

Nevertheless, belonging to a minority has a major advantage. The one-child policy, does not apply for the classified minorities, which means that a couple can reproduce more than one child, unlikely the rest of the country.

One-Child Policy

The one-child policy is a population control policy, or as the government refers to it, a family planning policy. This policy was introduced in 1978 and it was first applied in 1979. It was characterized by the supply of contraceptives methods and performance of abortions. The one-child policy was initiated in the urban areas, because the CCP's control system is stronger here, where the residents were threatened with loss of jobs or withdrawal of other privileges more typical in this area than in the country side. At the time of this policy announcement, billboards all over China featuring attractive parents admiring their adorable child were spread in an attempt to captivate the citizens.

This policy resulted considerably well in large cities, however, in the rest of China, this measure was quite unpopular. "How could one child take care of two elder parents?" was the question raised everyday by the peasant communities. In general terms, peasants doubted that a small group of young people would support a huge elderly population and, still, achieve high economic growth rates. Baby girls and boys with birth defects were abandoned on orphanages that had neither money nor staff. Parents had just one opportunity and they would not 'waste' it with a female person who would probably had to abdicate their career for her family or would not have time to support their parents, as soon as she got her own family and child. A handicapped baby was considered as a disgrace. Not only this child would consume every available time, but also he would not be able to take care of their parents when they got old, or even to help them in the business. A tension became part of every Chinese couple who just got married and some detailed incentives were outlined by the Chinese central government. Comparable to most of the Beijing laws and measures, there were some guidelines to follow, although each province could adjust the policy according to their specific requirements.

- A preferential status in housing and school admission to one-child families
- A charge of an extra tax package for each family with more than one child
- The abolish of the health care for women that expected the third child
- The sterilization of one or both members of the couple

In spite of the results achieved, the counterparts of these incentives were violent and painful. Wealthy Chinese families often bribe party's officials to ignore the extra taxes and corruption

went out of control. To face it, CCP stated that one of the main goals which the provincial party leaders had to achieve was the birth control rates pre-designed. The outcome of this last measure was far worse than the expected. The sterilization, which according to the law was not legal, was massively used and a several number of unethical and illegal attitudes were taken by the officials that expect a promotion inside the party. On the other hand, peasant couples decided not to register their children in an attempt to avoid the reprisals, which contribute to numerous problems in statistics and population control accountability. Nowadays, there are many discordant voices amongst the Chinese society that state that China's population is far more than 1,3 Billion people and the population's control has long been lost. There are even some other voices that firmly defend that 1,3 Billion is not realistic image of the country's population and just a convenient number for the Chinese Communist Party, giving an image of success concerning the one-child policy, which they affirm it is not true. Those critics defend that Chinese provinces could publish false numbers to promote themselves inside the CCP or even do not know the real number of people due to the fallacious child born records. Polemic statements will continue to flourish in China's society and the CCP will, surely, deal with it, however, it is important to remind that the Popular Republic of China is a country that account for 1/5 of the world's population and its census would always be an extremely hard, almost impossible, job to be done in such a limited time.

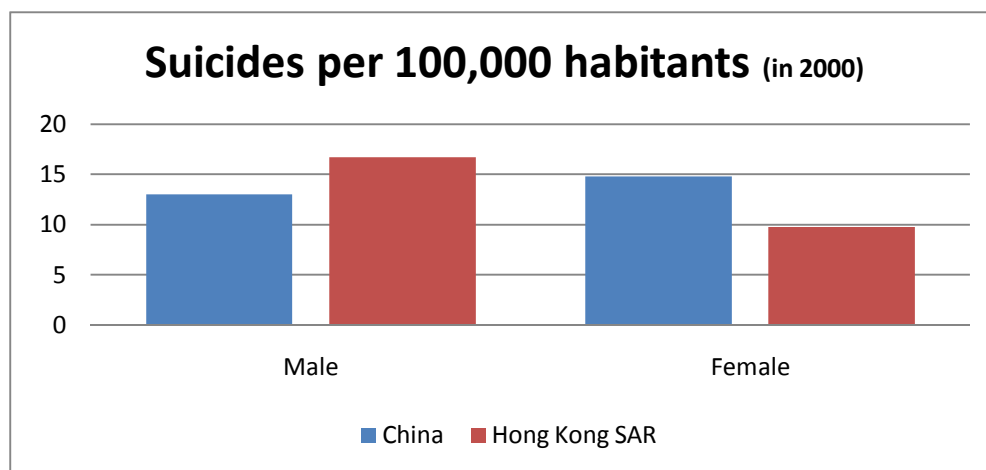
Other major concern is related with the fact that the births are lower among educated professionals and higher among the poor families. In the future, a scenario of under educated people in the decisive roles of the society is probable to happen. This would cause a decline of the intellectual quality of the population and, at the last consequences, a downfall of the social and economical structures conceived over the years.

More recently, in 2002, the central government announced that it was taking responsibility for the collection of the excess of birth fines away from local levels. Despite the fact that the order was vague on important details and proved to be ineffective, Beijing was recognizing that local governments were taking advantage of this measure to gain money with the fines. In fact, local governments were not discouraging the births, as they were an important source of capital.

Nowadays, the one-child policy is more relaxed. In some cities families are allowed to make some arrangements according to some local standards. The most well-known is the one which

concedes the couple the right to have a second baby, if both parents are descendent of a one-child family.

A child who was born in a one-child family is confronted with a whole number of different pressures through his or her life. Parents invest their time, capital and faith in just one child and the over management of the child's life is a 'cliché' problem of the new millennium Chinese society. A wide range of objectives and dreams expect the child, sometimes, yet to born, and any failure can assume dramatic proportions. The influence of those failures in a family life will infest the atmosphere and create the new family problems that Chinese families are facing. The criminality rise is caused, partly, by children and teenagers who couldn't handle such pretensions and goals predesigned by their families, for them to succeed. The disappointment becomes unbearable and the children turned into rebels, consuming alcohol and drugs, and giving up the school and the premeditated path. In extremely cases, children, teenagers and young adults, tackled by the fact that they did not succeed as their families expected, they commit suicide. There are 200,000 people committing suicide every year in China, which accounts for 42% of total suicide in the world and is the fifth leading cause of death in the country along with injuries, poisoning and falls. It is also important to underline that, in opposition to the western world where male is the main gender to committee suicide, in China, suicide is the leading cause of death for young women.



Source: World Health Organization

At a glance, the one-child policy may be the best known and the most overlooked of the Communist Party's many efforts to mold Chinese society. Infamous for it ranks amongst the most ambitious experiments in social engineering ever attempted anywhere in the world, the suffering it has caused is rarely mentioned alongside the great tragedies. Considered a necessity by the CCP, diagnosed as a calamity by some critics, the one-child policy still exists and is continue as an origin of debates about social ethics. One question remains without answer: Will China grow old before it gets rich?³

³ Robyn Meredith, *The Elephant and the Dragon: The Rise of India and China and What It Means for All of Us*, (...) back cover.

II. DISSERTATION ABOUT THE CORPORATE SOCIAL RESPONSIBILITY IN CHINA

Ethical evaluation of Corporate Behavior

As the 90's decade overtook us, public interest in ethics reached an historical high. While the press calls attention to the blatant derelictions on Wall Street, on some industries and in the Pentagon, and to questionable activities in the White House, in the attorney general offices and in the assemblies all over the world, observers wonder whether the world is sicker than usual. Probably not! The standards applied to corporate behavior have risen over time and, consequently, the rectitude of the business persons and politicians. People are getting higher standards of live, they are living much better. The access to the information on what is happening in the opposite part of the world is now reachable from home, bringing awareness and critical points of view to the spotlight. I believe it is false that the Human Being is becoming more corrupt and shameless, afterwards, it is just the level and the perspective of the evaluator that is becoming sharper and more competent in terms of business perspective.

China is not an exception. In fact, China is the most important issue in this matter. Being the motor of the world's economy, any breakdown in this country's industry would have a significant impact in the rest of the world, directly with Europe, USA and Japan, indirectly with all the other countries dependent from them. If Chinese managers are not accurate and efficient, the deliveries will be delayed, causing a tremendous pressure on the outputs of each factory. In consequence, the ethical organizations, as well as the Human Rights organizations, are changing their focus of attention to China. China is now the 'factory of the world'.

The integration of China in the world's society brought better conditions to its society. Although there are millions of Chinese men and women living in subhuman conditions, citizens of the biggest cities are getting higher standards of life, similar to the rest of the developed countries. The reason for so much highlight in the world's society concerning China's situation is due to the rise of the expected ethical standards. China is now considered a top country, due to its astonishing economical and financial performances; and the behavior of its managers is expected to correspond to the managers of the other top countries, for instance, USA, Germany, Great

Britain, and even Japan. The knowledge and perspective of China's society about Ethical issues is rising higher than the managers and leader's respect for that and that unbalance might distort some evaluation on this field.

The next tables are referring to the *Corruption Perception Index* of the 'Transparency International', a non-governmental organization that fights corruption and tries to raise awareness of it. Although it is a criticized index due to the lack of applicability, it is the most important ranking in the Ethical subject. Based on polls, the results are subjective; ironically, not free from corruption; but they reflect people's opinion.

2001			2009		
Rank	Country	Score	Rank	Country	Score
1	Finland	9.9	1	New Zealand	9.4
2	Denmark	9.5	2	Denmark	9.3
3	New Zealand	9.4	3	Singapore	9.2
...
58	China	3.5	79	China	3.6
...
90	Nigeria	1.0	179	Afghanistan	1.3
91	Bangladesh	0.4	180	Somalia	1.1

Source: Transparency International

As we can conclude, China decreased in the ranking despite the better score. Corruption levels are, basically, the same though its image to world is far worse.

In order to study those current trends of ethical behavior, I decided to present 4 cases of behavior, considered for the European/American perspective as unethical. The cases will be discussed in the following pages.

III. DESCRIPTION OF THE CASES

Case 1 - The Shadow Factories⁴

“Why is it so tough to do business in China?” asks Charlie Chen, manager of Zhongshan First Mountain Electrical Appliance, a giant electronic factory in the southern city of Zhongshan. The answer is given by the same person: “Because you don’t have one or two competitors, you have 100 or 200”. In 2005, a survey conducted by Andy Rothman, China Macro strategist at brokerage CLSA, confirmed that 37% of the interviewed had more than 200 domestic competitors.

As the majority of the manufacturers in China hold their business order by order, juggling their prices and lean times according to the requirements of the buyers, their margins became paper-thin. A high number of producers is good for buyers, who have more options to bargain from, but hard on manufacturers.

In such tight circumstances, the factory managers take desperate and unethical decisions in order to keep their business running and guarantee their survival. Accepting orders larger than the full capacity of the factory is now a common policy. Taking into account China’s unstable business environment, where everything and everyone is moving fast, managers are forced to act at a short term perspective.

In a 2006 calm morning, a female executive was on her way to visit a factory that produced some of the goods sold in Wal-Mart. As an auditor for that company, her job was to evaluate and scrutinize whether the factories respect the Wal-Mart standards and strict rules about manufacturing. These ethical procedures include an absolute inexistence of child on the workforce, the inexistence of slavery attitudes, the respect for the legal working hours and the payment of the minimum wage. The purpose of this visit was, essentially, to guarantee that this factory was not a sweatshop.

⁴ Alexandra Harney, *The China Price: The True Cost of Chinese Competitive Advantage* (2008), Chapter 2: *The Five-Star Factory*, pp.33 – 55.

Nevertheless, the Wal-Mart investment in China set the fire of two different and, at a glance, opponent forces: The demand for cheap prices at short lean times *versus* the fear of news revealing the dramatic subhuman conditions of the so-called sweatshops.

At the moment the executive arrived at the factory, she immediately saw the old dry flowers and the walls build in chip. Inside, the floor was of tile, very dirty at that time, what revealed that this factory expended little on the appearances. It is almost a requirement for the factory manager not to waste capital in secondary things. The auditor didn't seem to care less, and the first stage of the fearful evaluation process was fully completed.

The manager showed her the conference room, where a shelf displayed the factory's products. On this room, the auditor also spent little time and took the opportunity to ask the manager to choose 15 assembly line employees so she could interview them as fast as she could. After a quick analysis on the payroll records, the inspector started a guided tour throughout the factory, interviewing the selected workers, checking the fire extinguishers, the first aid box, the structure of the warehouse and the layout of the assembly lines. This journey ended up in the supervisor's office where she examined the quality control records. The time taken by the auditor for the whole evaluation procedure was not more than a couple of hours.

The relief on the manager's face only took place after he heard the classification. "Pretty good" she pronounced, more interested in collect her paperwork and follow the schedule that determined more factories in the same day. As the auditor was leaving to inspect another factory, the managers insisted in offering her a Cantonense lunch at a nearby restaurant.

A ten minute drive away from the restaurant, another factory owned by the same manager was running at its full capacity. Hidden away in a gated business park, this factory was making the same products for Wal-Mart but with totally different conditions. The secrecy that this specific factory impose to run, forced the manager to don't register it with the Chinese government. According to this factory manager, the Wal-Mart buys much of this factory output, although their auditors have never seen it. Officially, this factory does not even exist!

This factory is one more example of a trend in the China's business environment: The shadow factories!

This one is composed by 500 employees that work on a single floor, without safety equipment, without insurance and where overtime has no legal control. This factory is the main reason why the managers had a scary face during the previously explained audition. A detailed analysis on the first factory would reveal that the output sold to Wal-Mart would have to come from more than that specific source. It is just impossible to produce such orders without overtime; to sell those manufacture products at those prices to Wal-Mart without employing children as a substantial part of the workforce; to produce such high quantities due to the bottom-necks in the assembly lines; to pay insurance and, still, keep the production costs exemplary low.

The manager that I am talking about is Eugene Chan (his real name is kept secret to avoid legal conflicts). He is the owner of the factory the Wal-Mart auditor visited. He was born in Hong Kong and his level of education is low. He started early in the industrial business, first as a worker, like his whole family, in an assembly line and then as a manager. The experience as low level employee, gave him a different perspective from the Western ones he started supplying almost two decades ago. What Chan consider as normal procedures, they are unethical behaviors for Wal-Mart. Beating employees and sleeping in the desks are normal procedures. As Chan stated: "The factories are their lives".

Eugene Chan was already an established manager when, in the nineties, he decided to contact Wal-Mart offering his services (that remain unknown to avoid legal problems). Wal-Mart was the major challenge to date and he knew it would be hard to meet the requirements, however, he decided to try. At that time, the big multi-nationals were very aware of how ethical problems (as seen by the Western societies) could be prejudicial for the success of the business due to the examples of Nike shoes and apparel; and later with the Mac Donald's toys scandal. These two companies suffered major losses in the financial income, losing customers and harming their brand image. Wal-Mart was not an exception. While codes may vary from company to company, each supplier must meet some general requirements before it is approved as an official manufacturer. The general requirements are: the limitation of working hours, installation of safety equipment, the payment of, at least, the legal minimum wage and the following of the local labor law.

For Chan, the most problematic procedure to endure was the limitation of working hours. Since the first moment he doubted that he could meet Wal-Mart delivery deadlines and, still, follow the restrictive rules of working hours.

Popular Republic of China only has a labor law since 1994. That law came in effect in the following year and has established an average 44-hour workweek, with no more than 36 hours of overtime per month. The working day lasts 8 hours, the employees must have one day off a week and four national holidays. If a Chinese company wants its employees to work more than the standard workweek, it should be, by law, negotiated first with the workers or with the union (?!). Overtime payment on weekdays is 1,5 times the regular wage; on rest days 2 times; and on Sundays and public holidays, it is 3 times. Employees must not work more than 3 overtime hours each day.

As Philip Lam, Chan's business partner, claimed "so we have to think of other ways to make our profits reasonable". For Chan and Philip, it was clear that the Chinese labor rule was not a reasonable path if they wanted to stay in Business. That other way was not difficult to implement. On the other hand, it was much simpler than what could be expected, since Chan's employees are migrants from rural villages who consider the legal minimum wage inadequate and prefer to work longer hours to increase their salaries. "The basic trouble is the worker wants to earn more in a short time" Chan explained. If any factory in the area has overtime, workers will leave to find a job there. After some local market research Chan understand how to cope with the deviating demands of their workers and customers: They arrange two sets of cards, one for Wal-Mart and the real ones that are kept hidden elsewhere. Besides, the workers are coached to give Wal-Mart auditors the answers they want to hear and the managers set new factories on the side on places that Wal-Mart inspectors will never doubt.

The essence of this policy is simple. Every night, two of the factory's office employees stay late to stamp time cards with clock-on and clock-off times that match Wal-Mart's standards. The two sets of cards are kept in separated lockers to avoid confusion. While one manager creates fictitious payroll documents that match with the fake cards, another is collecting employees in the supervisor's office to teach them what to say and what not to say in the Wal-Mart's inquiries. Furthermore, underage and uninsured workers are sent off the factory in the day of the

announced audits and new hires are not allowed to work extra overtime, in case they are labor advocacies in disguise.

Chan shifted 40 per cent of his production for the shadow factory. The workers who prefer to work the legal hours remained in the real factory. “Five star factory” as Chan insisted to call it. In the shadow factory, employees earn 165\$ (yuan) a month for working 11 to 12 hours a day and seven days a week; which is considerably more when compared with the “five star factory” workers that earn 127\$ a month for 8 to 10 hours a day, six days a week. Another difference between them is the fact that the “shadow” factory workers are paid daily in opposition to the others that are paid monthly.

So, what we can conclude is that most factories have two factories. The real one, for demonstration and the shadow one, for the actual production. Chan continues his description by stating that the Chinese government is aware of these illegal backstage movements and adds that if every factory needed to reach the legal standard, the costs of production would not be that low and, finally, there would not have such thing as the ‘China Price’.

The method of falsified records is been working beautifully, with the workers being almost authentic in their previously studied lines and the well convincing time cards. Nevertheless, Chan and Lam suspect that the Wal-Mart inspectors know the reality, only decided to act with ‘one eye open and one eye closed’.

Nowadays, Chan not only has started to outsourcing 20 per cent of the whole production to another factory, but also has plans to invest in a fourth one. “I must make our factory stronger” he says. “Without these other factories, we wouldn’t have a chance”. According to one auditor who has been monitoring factories in China for over a decade, 99 per cent of the factories have a “shadow” one. In this specific case, there is more than one. It is interesting how more than half of Chan’s production capacity is now off the books, off the Chinese government knowledge and, ultimately, remaining unknown for Wal-Mart.

Analysis of the Case 1

It is definitely interesting how an incredibly massive quantity of products is kept unknown from the competent official authorities. Saul W. Gellerman asks in the article “Why ‘good’ managers make bad ethical choices?”⁵ how can normally honest, intelligent and compassionate people act in ways that seem callous, duplicitous, dishonest and wrongheaded? The answer might be: who decides which attitude is callous, duplicitous, dishonest, wrongheaded, or even right, grateful and compassionate? Which is, in fact, another question.

The method of analyzing ethical issues has always to consider each traditional culture. It becomes more crucial when the entity that is scrutinizing the problem is from a very different culture of the other one involved, which is exactly the present case. Wal-Mart, a North American multinational is committed in implementing their ‘hometown’ standards and procedures in the place where their products are being manufactured. It is known that China and United States have very different points of view considering the labor rules and social responsibility. It is also true that U.S. is always on the front line when it comes the time to criticize the ethical behavior in China. However, this country continues to be the favorite destination for the North Americans to decentralize their production.

Joseph L. Badarocco, Jr. defends in his article “we don’t need another hero”⁶ that a quiet leader is the ‘model to be’ for the present times. He defends four rules in the base of the success. Three of them can be directed linked to this case:

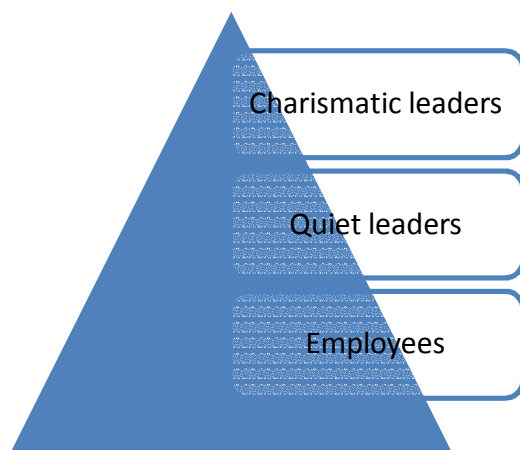
- Pick your battles
- Bend the rules, don’t break them
- Find a compromise

Mr. Badarocco, Jr. believes that allowing the turbulent waters passage is an act of merit and long term planning. With imagination, restraint and flexibility the second rule might define the existence or inexistence of a company. Although he adds that it often sounds easier than it is. At last, not to see situations as polarized tests of ethical principles is a needed skill, in which finding

⁵ Saul W. Gellerman, *Why ‘good’ managers make bad ethical choices?* (2009)

⁶ Joseph L. Badarocco, Jr, *we don’t need another hero* (2003).

the 'good enough' is the key of success. It seems to me that Joseph L. Badarocco, Jr. article is related to two types of situations with a common characteristic: the fact that the manager is highly dependent of some hierarchic superior decision. One situation that can be included in this definition is the medium level group of managers in the enterprise world. The vast majority of difficult problems are solved through the consistent striving of people working far from the limelight. Their quiet approach to leadership doesn't inspire, thrill or provide stories for uplifting TV shows, though their unglamorous efforts of quiet leaders make a tremendous difference everyday in the corporate world. The other situation plausible of being related with Mr. Badarocco, Jr. theory is the group of low-value product factory's managers with ferocious competitors, which is, precisely, what happens in Chan's factory. Chan is a quiet leader and knows that if he choose to battle against Wal-Mart for the modification of certain conditions, that would provide him more time to reorganize the factory and improve the employee's conditions, he would lose this customer that could possibly be the unique one (not specific in the texts).



In turn, Chan has decided to bend the rules without break them (which would attract unnecessary and harmful attention), finding a balanced compromise with his client.

The shadow factories are a common problem over China's coastal zone. A misconduct led by urgency in rationalizing the performance level needed to reach the foreign customer's orders. The Chinese manager believes that the activity is within reasonable ethical and legal limits. It is the border between right and wrong that just shifts in a convenient direction, sometimes believing that because that activity helps the company, the company will forgive it.

Identified unethical behaviors: The usage of unlicensed factories kept unknown from the customer; the usage of falsified records; and the fraudulent support of the auditors.

Approach: The quiet leader – quiet approach of the company's goals and problems.

Case 2 - New Balance goes to China⁷

On the January 6th of 2006, the National Labor Committee and the China Labor Watch published a polemic report, in which the factory conditions at the Hongyuan shoe plant were seriously condemned. Yet, ten days later, the executives of the company *New Balance* arrived to announce that Li Kai Company, that specific shoe plant, would be a new supplier.

New Balance is an athletic shoes, shoes and apparel company based in Boston, famous for being focused primarily on innovation instead of design and with more than 100 years of experience (it was founded in 1906). Furthermore, *New Balance* is associated with five charity organizations and has the mission of “Demonstrating responsible leadership, we build global brands that athletes are proud to wear, associates are proud to create and communities are proud to host”.

On the day of the arrival, the New Balance team was met by upwards of 4000 workers, cheering and shouting encouraging lines as: “New Balance, New Balance is the number one brand; Li Kai, Li Kai is the number one in the shoe industry; Di Chang, Di Chang has the most accomplished and meritorious manufacturing”. In the days preceding their arrival, the workers had a regime of practice twice daily, including getting up early, rehearsing how to assemble in giant color coordinated blocks and rows according to their uniform colors. Nevertheless, not everything was as planned. The workers of the factory plant #5, in a riot act, were singing “New Balance, New Balance is the number one hirer of prostitutes; Li Kai, Li Kai has the lowest wages; Di Chang, Di Chang manufactures crap”.

The truth is the workers were not pleased to participate in this ‘dog and pony show’. While hundreds of workers were lined up in the balconies of the nearby dormitories wildly waving red balloons as if it was the day of the liberation, the workers of the factory plant #5 were creating their own chant, expressing what they were actually feeling.

The major complaint on the Li Kai factory plant #5, which produces for New Balance, concerned the low wages which were far below the subsistence levels. The base wage at factory #5 was 40 cents an hour and 3.22\$ US dollar a day. However, they have mandatory deductions for food and

⁷ Vincent Kolo and Chen Lizhi, *China: Sweatshop of the World* (2008), pp. 9 – 15; National Labor Committee & China Labor Watch Special Joint Report, *New Balance Goes to China: A Rare Glimpse Inside the Emerging New Corporate World Order* (2006)

dormitory expenses cutting the wage to 2.55\$ a day, 12.92\$ a week and 51.68\$ a month. Still, there were some workers that reported to earn, in the month before of the arrival, 49.32\$. According to the managers of this factory plant, in January 2006 there was an attempt of riot when, spontaneously, two teams of the 6th floor went out to an one hour work stoppage, protesting the low wages and refusing to go back into work. According to some employees, this type of unorganized small protests is very common in this plant and always end up with the manager's will prevailing. Without choice, the workers have to take a deep breath, swallow their pride and force themselves to return to work. They are, definitely, not the happy faction *New Balance* managers claim they are.

The references to “prostitutes” in the workers chants is referring to their feeling of being exploited by Li Kai and *New Balance* management and also because it rhymes in Mandarin.

The Hongyuan workers are forced to pay 50 yuan for their own working uniform. This is equivalent to two days wages. The concept of using uniform is to credit Li Kai factory as an organized and professional but when workers leave the factory, they are not allowed to keep the uniforms. Moreover, they do not get any refund for it.

The employees are fined if they walk off the sidewalk, drop a candy wrapper, leave a shirt on the bed during the shift, use electricity for personal reasons, talk back to supervisors, try to organize or fail to sweep and mop their room three times a day. There are long military-like lists of conduct codes. These codes of conduct are also another scheme on how Chinese factory managers deceive the multinationals headers. In this specific case, slight changes were made in the translation for Mandarin and statements like “There shall be no discrimination against workers based on political affiliation or union membership” were ‘customized’, “union membership” was removed and it was inserted “membership in a social organization”. Another example of this misinterpretation is the statement “Employees shall respect the right of workers to join and organize associations of their own choosing and to bargain collectively”. In the mandarin version, we can read “...join and organize legal associations or social organizations including the right to bargain collectively”. These modifications make a huge difference since independent unions are not legal in China and legal unions would not ever take advantage of employee's side against either the managers or the government.

According to the *New Balance* public relations office announcement, the factory plants they are using in China are “model factories”. On the other hand, the ‘New Balance Goes to China’ report published by the US-based National Labor Committee and China Labor Watch defends the opposite, comparing those factories to minimum security prisons. As a matter of fact, in the Oregon prison located in the United States, prisoners are being paid 1.36\$ an hour to sew jeans and, in some California prisons, women earn 44 cents an hour to assemble computers. The ‘New Balance Goes to China’ report was elaborated by inspectors of those two associations with the remarkable assistance of brave workers who took notes and photographs that were carefully hidden inside heart shaped papers. These heart shaped papers were used to trick the safety guards at the entrance of the factory complex that believed they were gifts from the girl’s boyfriends.

The atmosphere inside the walls of the factory plant #5 in Hongyuan was uptight. Despite the allegations of the dorms managers that claimed “a nice and beautiful environment...we want our workers to feel like they are in the midst of a warm and harmonious family”, fear reigns over the employees. Supervising and exposing fellow workers is rewarded by bonuses of 4 days wages, and to leave the factory, they must be searched by security guards, who go through all their belongings. Workers perceive this as an affront to their dignity and personal life, especially the women.

As the list goes on, finally comes to the surface one of the biggest problems in the China’s industrial situation, the child labor. The company (*New Balance*) manual states: “minor workers (16 and 17 years old) enjoy a rest period of one hour each day. It counts as work time. Furthermore, the minors will not be working more than the regular day” which is eight hours, five days a week. This is clearly not true, since the minors work ten hours a day and are forced to do overtime on Saturdays. Gender, Age, Height and even Province are origin of discrimination. Outside the factory walls, there are posters announcing job opportunities for “new women workers” or “18-30 years old girls” who must be “at least 1.5 meters tall”.

A hiring poster of 2006 was very specific: “Male workers: newbies and old hands have an equal opportunity. Bring real identification. Those from Sichuan, Henan, Anwei, Jiangxi will not be hired”. The reason for such requirements is due to the desire of the Li Kai factory #5 to keep workers separated and unorganized. They believe that if they hire too many men from one province, these workers may bond together and, as a group, be more assertive of their legal rights.

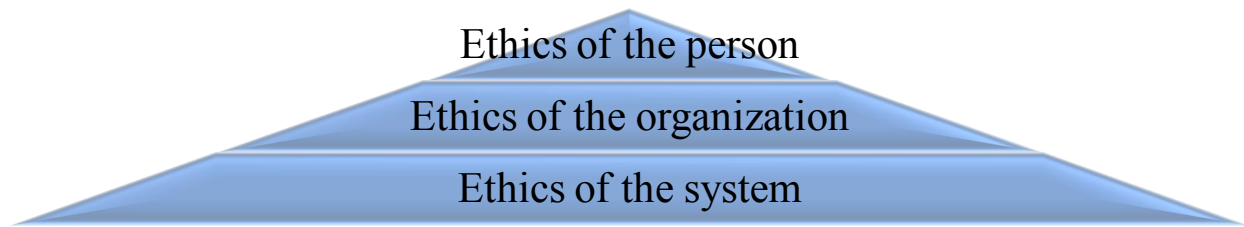
To achieve that, the managers purposefully control the workers flow from the various provinces. Nevertheless, these policies are also against the multinational policies, clearly stated in the *New Balance* code: “All employment decisions must be made in a non-discriminatory manner”.

The reality about Li Kai factory #5 is one example of the thousands factories that manufacture for the American and European companies. There is still, extremely complex issues to solve related to the basic necessities of the employees that relegate problems like the inexistence of health insurance and work injury insurance for a second meeting/chance. To elucidate one fact, Li Kai factory already existed and already had ethical problems before being chosen by *New Balance* to be a supplier.

Analysis of the Case 2

Li Kai factory #5 is the model example of the conflict between the ethics of a national system and the ethics of an organization. In this case an American organization called *New Balance* implement itself in the Chinese territory nearby the cluster zone of industries in Hongyuan. In a routinely basis, the factories of Hongyuan compete, not only between them, but also among thousands others factories for the attention of the giant occidental enterprises. Li Kai Company had that skill, probably due to its incredible manufacturing price proposed and the unbelievable low lean times. At *New Balance* managers committee, Li Kai Company might have sounded the best option and the decision in doing business with this Chinese company was taken. The conflict began in the next phase. The conditions that established Li Kai Company has the best one to deal with, were based on a moral and ethical standard very different from the *New Balance* one.

The following figure offers a graphic that helps to separate and identify the ethics of the system (ex: Chinese industry, in which Li Kai Company is inserted), the ethics of an organization (ex: *New Balance*) and the ethics, the values and the standards of a person (ex: the manager of Li Kai factory #5 and one manager of *New Balance*). How did these three dimensions interact?



Source: John B. Matthews, Kenneth E. Goodpastor, Laura L. Nash (1985). *Policies and persons: a casebook in business ethics*

Like the well known Maslow pyramid, the lower level (Ethics of the system) is the most predominant in the overall result. An organization can either cooperate or not with the values of a superior system, but its values can hardly become more relevant than them. The same logic can be applied to the upper level of this pyramid. An individual can have his own values and standards and they should be in tuned with the organization that he is in. If his values are not similar with that organization, conflicts are more likely to happen and his will would not prevail through the organization. In a rare case, if somehow a person's values overcome the organization's ones, is probably because the ethical standards that the organization stands for, are not the real ones that guides it. This example can be easily demonstrated by the behavior of a family in the society. The system can represent the society, the organization represents a one child family and the person represents the child. If their ethical standards are similar, the integration and the cohabitation in the society will be smooth and easy, on the other hand, if the family does not agree with the ethical values of the society, either they change society that they are in (change place of living) or they will not adapt. In a last possible scenario, if the child have the opposite values of his family, although he has the same of the society, either he will try to change his family values, or he will also have trouble to coexist since his vehicle to establish connections with the society is, primarily, his family.

The first step to manufacture in China is to align the values of the company with the local factory ones. Li Kai Company is composed by a several number of factories that have their ethical standards defined in order to boost their manufacturing performance and efficiency. As to *New Balance*, before this period, it manufactured mainly in American territory which has the same ethical standards and it was more accessible to control. An attempt in changing the lower level of the pyramid was made when *New Balance's* managers published a procedures list. That

publication was modified for the Li Kai managers in order to adapt it to the system ethical values. In other words, we can consider it as an effort to align the organization values to the system values, although it was done in a deceptive way. The ethical clash is evident and the managers (the person in the pyramid example) are acting to adjust the organization principles for ones more similar to the system principles. A high number of attitudes taken by Li Kai factory #5 are against the *New Balance* ethical standards, but they prefer to be flexible and obtain the financial benefits of doing business with Li Kai's than being strict and, possibly, broken.

Nevertheless, one question raise among the others: where exactly is the line between smart and too smart? Or the line between sharp and shady?

It is a risky move to adjust so many procedures and to be so flexible due to the possibility of losing the final customer that once felt tempted to buy *New Balance* products because he felt identified with the company values. The company can lose credibility and brand awareness, like its rival *Nike* in the 90's. The usage of child labor and all the restrictions concerning the recruitment can spoil the decade's effort of a company to cut down the manufacturing costs by decentralizing its process.

Like in the Wal-Mart example, the "one eye open, one eye closed" attitude is the balance measure taken by the Multinational organizations. They know that the Chinese factories are conducting their business in a way that is against the ethical values of the company, but they pretend to do not see the less serious issues in order to guarantee the flow of the business and, in some cases, their survival in the corporate enterprise world.

Identified unethical behaviors: The lack of endorsement of the promoted company values; the illegal conditions and attitudes of the factory; and the deceptive translation of the procedures board.

Approach: The ethics primacy pyramid – the adjustment of the subdued ethical dimension

Case 3 - Milk Scandal⁸

August, the 8th of 2008 was probably, the most important date in China's political environment since the Tiananmen Massacre on 4th June of 1989. The number 8 is considered to be a lucky number in Asian cultures because the Chinese word that means it, sounds very similar to other Chinese word with a very auspicious meaning. 08/08/08 was not a randomly chosen date to celebrate the beginning of the Olympic Games in Beijing. The necessity to demonstrate to the whole wide world the progress in the social atmosphere, the achievement of an almost egalitarian society and the pride of being a Chinese citizen was flourishing in the 00's decade and on this date, the government would have the ultimately exam.

Although there were some troublemakers protesting for the Tibetan's freedom, the Olympics were a success in different grounds (at different levels). On the sports field, China ended up in the first position of the National Olympic Committee with 100 medals, in which 51 were of gold. For the first time in History, China was the nation with more points in the ranking. On the economic field, the Beijing Organizing Committee for the Olympic Games reported that expenses with the 2008 Summer Olympics were "as much as the Athens 2004 Olympic Games", around 15 Billion US Dollar. Independent sources, however, declare that the investment was about 40 Billion, which would make it the most expensive Olympics ever by a large margin.

In the Chinese bid for the Olympic Games in 2001, Beijing stated to the Olympic Evaluation Commission "that there will be no restrictions on media reporting and movement of journalists up to and including the Olympic Games". According to some media, the organizers failed to live up to this commitment. The censorship and the restricted permissions to report the news in the neighboring provinces ignite some discussions about the controlled press in China and, surely, about whether this nation fulfills the minimum requirements to host this event or not. Nevertheless, the sporting achievements and the imperial logistical organization occupied almost all the pages in the international media.

Further on the timeline, precisely, on September 17th, Chinese Health Ministry officials announced that 6200 babies had entered the hospitals with kidney stones. The main cause: the

⁸ Vincent Kolo and Chen Lizhi, *China: Sweatshop of the World* (2008), pp. 83 – 84; Wikipedia website; chinaworker.info.

drinking of milk made from toxic powder. Just after the triumphal ending of the Olympics on August 24th, the scandal erupted in the media all over the world. *Sanlu*, a dairy Chinese company popular in infant formula was on the spotlight! Sanlu Group was a market leader and was based in Shijiazhuang, the capital city of the Hebei province.

Melamine was the additive responsible for the chaos. It is a toxic powder very used in the production of plastic and is harmful if swallowed, inhaled or absorbed through the skin; although in China, it was used for several years as a surplus in the milk due to its ability to turn poor quality milk into, apparently, one higher in protein content. This property was actually used in a promotion of pet food as an indication of a healthier aliment.

Even so, the biggest problem was yet to come. The New Zealand dairy cooperative *Fonterra*, which holds 43% share in *Sanlu*, said it knew since early August that the milk powder was spoiled and it would cause dramatic consequence for the ones who would consume it. Andrew Ferrier, *Fonterra* Chief Executive, tried to broadcast and to launch public warnings, but he claimed he was blocked by the Chinese government. The timing for a bad advertisement could not be worse and, with press from all over the world covering one of the most important moments in the Chinese recent History, the Chinese government did not cooperate with Ferrier's will of publishing and make this incident known.

"I can look myself in a mirror and say that *Fonterra* acted absolutely responsibly" he reported in a video press conference in Singapore.

Only at September 11th, *Sanlu* announced a recall of all its milk powder products made before August 6th. In the announcement note, no further explanation was offered about the reason of such delay in this attitude. A high number of conflicts that opposed on one side, the baby's parents against the company's side, exploded. The parents expressed their anger on how it was allowed such a delay in taking safety measures. In addition, the Chinese government was also a target of the people's complains and once again, the official numbers were denied by the unofficial sources that claimed 294,000 babies were struggling for their survival.

Li Fangqing, a Beijing based lawyer, was the person chosen to represent the offended (the parents) in the trial. Li's opinion at first was "the government's quality control departments are probably responsible for this strategy. It is unlikely that the whole thing consists of an

independent crime committed by the dairy farmers.”He based his argument, particularly, in two facts. The first one is the ‘Big Head Babies’ scandal of 2004. In eastern China, 13 babies died after drinking milk that contained little nutritional value. Those babies developed swollen heads before they died. The second issue and, certainly, the most important for this case was the China’s Food Safety Administration 2008 May report. Officially, 99.1% of baby milk powders on the market had passed safety tests just some months before the scandal. Besides, the same report reaffirmed the quality of 16 dairy products exempted from further quality inspections. (Some of them belong now to the blacklist).

From the almost three hundred thousand ill babies, 6 of them died. The international attention was the engine of the movement against this Sanlu’s ethical problem and also against the easiness of the government, forcing the communist party to deal with it exemplarily. It would be an opportunity to demonstrate to the more distracted, or less informed, societies that the communist party stands for justice. Actuality, the communist party was only erasing the self arranged problem!

In the last trimester of 2008, Sanlu was inducted to declare bankruptcy. On the last day of 2008, the trial began with the former general manager, the former deputy general managers and the former head of Sanlu’s milk division being processed for producing and selling fake or substandard products. On January 22nd of the following year, the general manager was sentenced life in imprisonment and the other three were sentenced to five to fifteen years in jail. Two other men were sentenced to death. Meanwhile, Sanlu paid a 902 Million Yuan compensation to the victim’s family and paid a fine of 50 Million Yuan.

As to the government role in this accident, the consequence was the expected one. Nobody took responsibilities and there were no compensations to the families caught up in this misfortune. As to the milk market in China, it got through times of trouble. Chinese people lost confidence in the Chinese milk, the decrease on the exportation was massive and opportunities to foreign dairy companies to come in were created.

One widespread speculation remains intact. In people’s minds, not only in China, but all over the world, China’s desire for perfect Olympics may have been the main reason contributing towards the delay on the recall of the tainted baby’s milk.

Analysis of the Case 3

The primary role of a country's government is, as the name indicates it, to administer all dimensions of the resources available in the country towards the future. Surely, it should be based on sustainable policies, promoting an egalitarian society, promoting an access to education, an access to healthcare and another high number of ideologies summed up in the Universal Declaration of Human Rights of December 10th, 1948. However, the respect of this doctrine in China is a topic of internal and external discussion. China is a member of United Nations Organization (UNO) since October 1945 though its measures to stand for the declaration is being disguised and considered insufficient. Usually, China defends itself from the foreign accusations of disrespect of the Universal Declaration of the Human Rights by claiming that it is an internal affair and the other countries should not comment or judge. This happened when China lost the 2000 Olympic for Australia, despite the better conditions presented. The Olympic Evaluation Commission voted on Sidney, justifying themselves that China still record a considerably high number of Human Rights problems, which is not in tuned with the Olympic spirit. The Chinese government response was aggressive, clarifying that they would not give up the hostage of the Olympics in the 00's decade. In spite of some contradictory voices, Beijing received the Olympics in 2008 and the Chinese people exalted pride and happiness, as the world testified in the public demonstrations of joy. According to James Kynge, the author of the 2006 *Financial Times* and Goldman Sachs Business Book of the Year Award *China Shakes the World*, Chinese people were too coordinated and too happy to be genuinely true.

On the other hand, China is a country with the dimensions and the population of a continent and the governance path must be forcibly different. The melting pot of cultures that the world represents should respect the Universal Declaration of Human Rights, still, it is a tough task only realistic with mutual tolerance. Indeed, tolerance is a characteristic that China does not have, probably because they cannot be tolerant at the same time, to keep the law and the order in a country with the size of a continent. The challenge begins at this point, in having the knowledge to balance the situations according not only to the international law, but also to the internal effort to keep the development pace.

The main ethical *quid pro quo* behind the milk powder scandal was the ‘whistle blowing’ dilemma. It represents the doubts and insecurities of a decision-maker before he decides what to do. Specifically, it is the attempt of an employee or a former employee of an organization to disclose what he or she believes to be wrongdoing in or by the organization. In these situations, the individual faces the problem of being disloyal to one of the competing loyalties: the loyalty to the organization he is in or the loyalty to the society he is in (or to the values he believes). In the majority of the times, the individual suffers some kind of retaliation from the organization he just denounced, which can discourage the individual to do it. In the developed nations, there are legal procedures and entities that endorse the ‘whistle blowing’ when it is true, but also punish the individual when it is false. Besides, a ‘whistle blower’ is often seen as an enemy of the organization.

China’s society is still very conservative dealing with enemies. The Chinese Communist Party is the maximum authority of the nation and the enemies are silenced and censored in many different ways, according to the importance of the problems they are alerting. When the New Zealand dairy cooperative *Fonterra* was noticed, in early August, that the baby’s milk were tainted and it has been already distributed, they acted like ‘whistle blowers’ by warning the Chinese government of the problem. They knew the consequences and they act according to the legal procedure of noticing the central government that the public health is under an imminent threat. The reaction of the Government was the opposite of the *Fonterra* organization.

As soon as the Chinese government was informed about the situation and the possible effects of that on the Chinese population, they choose not to spread that information. This attitude of do not disclosing information that can harm China’s internal and external image is extremely common. They claim that it is for the sake of the Chinese people union, which is, accordingly, the only possible way of developing the country.

On August of 2008, more than ever, China wanted to make an extremely good impression on the world and a public health scandal, caused by a market leader with the help of incompetent state audits, would be a giant stain on the immaculate white dress. Moreover, the international press was in China and it would, certainly, scrutinize all the details and conclude the immense guilt of the government on this scandal. This problem would assume uncommon characteristics because, due to the promises of no media restrictions to the Olympics Evaluation Commission, it would

be impossible to control the journalist's movements and respect the Olympic spirit at the same time. China had a lot to lose and they did not want it! The only way to avoid the international attention and to produce the biggest Olympic Games in the History was to suppress the milk tainted situation and deal with it afterwards. Meanwhile, 294,000 babies struggled for their survival and 6 of them died.

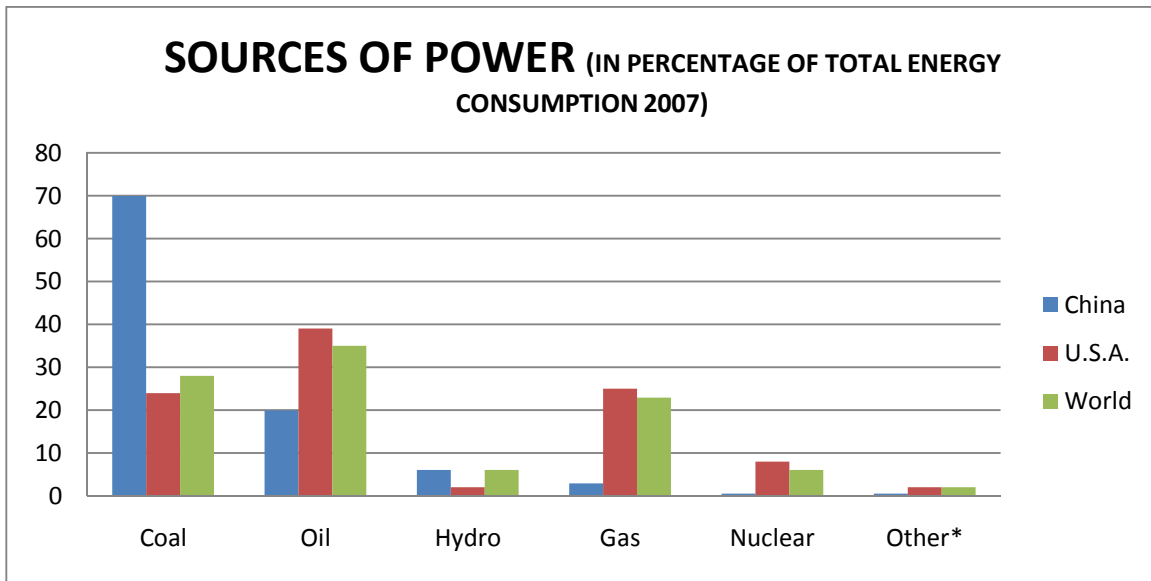
In this case we have the dilemma of 'whistle blowing' represented in antagonistic ways. While Fonterra chose to be a 'whistle blower', the Chinese government refused to adopt that attitude, dealing with the consequences later, after they had faced the dilemma. Politically, China might have avoided some problems and succeeded in the protection of the global image of the Olympic Games; still, that effort cost 6 baby martyrs and thousands of sick people.

Identified unethical behaviors: The distribution of tainted aliments; the information censorship about a social health problem to protect the brand (this case, a country's reputation); and the disrespect for the human dignity.

Approach: The 'whistle blowing' – to denounce or not a possible harmful situation

Case 4 – No. 5 Coal Mine⁹

Battling against Japan for the second place in the world’s oil importer ranking has not blocked the rising on the coal production in China. In fact, the coal production has nearly tripled in the period 2003-2008. Meanwhile, the price of imported oil was establishing new records. The market reaction to this movement was not a surprise, with the oil oscillations carrying along the domestic coal prices in China and creating the perfect atmosphere for the appearance of a new social class, the so-called “Coal Barons”.



Sources: The World Bank; BP Statistical Review of World Energy June 2009; Energy Information Administration; The China Greentech Initiative Analysis; China Wind Power Report; Renewable Energy World. *Includes solar, wind, geothermal and biomass

The slaughter taking place in China’s coal industry is not a secret for the mainland inhabitants and is gaining relevance in the rest of the world. Since the reports of gas blasts, underground floods and mountains collapse were arising on a weekly basis, the policies and lobbies to camouflage such incidents became effortless and too incomplete to cover such protests.

⁹ Philip Pan, *Out of Mao’s Shadow: The Struggle For the Soul of a New China* (2008), pp. 115 – 119; Vincent Kolo and Chen Lizhi, *China: Sweatshop of the World* (2008), pp. 55 - 58

At least 45,000 were killed in coal mining accidents from 2000 to 2008 and the families involved are clear in blaming the pure greed of coal bosses who have made huge profits as coal prices have soared on the back of the rising oil and energy prices. For those families, the rise of the production in such coal mines were an unsafe decision and, despite the high revenues, none of that capital was used to invest in safety equipment.

Coal is the lifeline of the soaring Chinese economy, the cheapest and most readily accessible source of energy. It fueled the expansion of almost all industries, powered the mills and factories and kept the lights and, the absolutely needed, air-conditioning in the cities. This ever rising demand of coal made the businessmen and the managers who control the coal wealthy. As a matter of fact, this “coal barons” entered to the top of the richest people rankings.

However, while managers were getting richer; the coal mines were getting dangerous and the miners were getting killed! Nevertheless, along with the prosperity of this business did not come any adjustment on the regulations. In fact, under the Chinese law, mine owners are only obliged to officially report accidents if there are 3 or more victims involved. Taking advantage of this rule is a common practice among all the coal managers which is in the origin of the coal mining phenomenon “Body Smuggling”. It consists in dumping the dead bodies in rivers or even disposing them in the provincial borders, each time an accident in a coal mine happens and does not have more than two fatal victims. The provincial borders are a preferential location due to the doubt that would create in people’s minds. “Which province is this dead body from?” would definitely compromise the inspector’s job. Besides, some corpses of the same coal mine are left in different borders, or in different locations of the same border.

According to different sources of data, officially and unofficially, between 3 and 5 million are employed in the China’s coal mine industry. What happens to the two million workers that are constantly floating in the statistics? The answer is that 2/3 of the people employed in this industry work in private coal mines or in those opened by the local governments, in which, the supervision is almost inexistent and, the one that exists, is really fallacious and corrupt.

Official statistics of annually deaths in coal mines report between 5,000 and 7,000. It is bad enough, but internal reports and industry journals reveal a much worse number. Since the economic reforms began two decades ago, mining accidents have taken the lives of 10,000 to

40,000 coal miners each year. Therefore, from 45,000 officially, to somewhere between 90,000 and 360,000, lays the real number of deaths. Considering the law of the no declaration of accident previously discussed and the history of censorship in the accidents data (the government numbers of the Tiananmen Massacre deaths is 241; while the foreign press, the hospital records, the doctors in service testimonials, the Chinese red cross and the protesters estimates between 7,000 and 10,000), it is probable that the number of deaths is much higher than 45,000 in nine years.

Still, keeping our analysis on a strictly officially basis, China's coal mines are, by far, the world's deadliest. For every million tons of coal produced, 4 to 5 miners are killed. In comparison to countries also dependent of the coal to boost their economies, such as Russia (3rd biggest coal exporter in the world) and India (67% of the total energy consumed is coal), the fatality rate is less than 1 death per million of tons of coal produced. On the other extreme, there are countries like U.S. and England that account a number of deaths lower than 0.05 per million of tons.

On a rainy summer night in 2002, there was an accident in the No. 5 Coal Mine. This mine is located in a village called Gangzi, Jiangsu Province, on the north-east coast of China. The cause was an explosion ignited in an insufficient ventilated shaft. The number of fatalities was 92, all of them miners. Many of them were peasants who had traveled hundreds of miles in search for a job where they would receive enough to survive. Mainly, people with low education and without networking, who would never have the 'voice' to protest effectively against the wrong doings of the coal industry.

Among the miners that worked on that coal mine, there was Gao Beiwen's family. Gao is a former miner who was injured in an earlier explosion. His wife, without finding a better place to work, started to work on the No. 5 Coal Mine to pay his medical bills. Gao's son also started working on the same place after failing to find a job in his area of expertise, cooking. "They knew he was a good worker, so they kept calling and asking my wife to bring him" state Gao Beiwen. Gao Yingru was just a skinny sixteen-years-old trying to save money to attend computer classes. There were strict regulations against women and minors working in coal mines but in Gangzi, that was not, certainly, a problem. Some miners even reported that there were thirteen-years-old girls hired to push coal carts.

“They violate rules all the time, but where can we complain?”. Gao Beiwen continued “we need the jobs, and the owners all have good connections with the local officials”. His voice failed and he stared the floor. The explosion of that summer night in 2002 had taken away his wife, his son, his younger brother and his brother’s wife. He had no one to ask for help and nowhere to ask for justice. After the fatidic day, he was just a forty-six-year-old man with a scarred face, a simple house, a daughter and his two nephews to take care of. Gao Beiwen is the man holding in his arms his son’s portrait, in the famous picture of the *Washington Post* of 2002.

In a nation with free press, such a relentless source of tragedy might bring down a government. In China, it hardly made the news. The fear is widespread in the midst of the miners. Compared with the flow of profits, the official price for a compensation implicated in each death in the coal mines is not only an insufficient amount, but also offensive. It often made more financial sense for a mine boss to let workers die, than to invest in safety measures and equipment. The compensation varies from 1200 to 6400 yuan for each death which is equivalent to a few years of a miner’s salary. The basis for this variation is not clearly defined.

Unfortunately, what is clearly defined is the difficulty to feel a sense of justice after an accident in a coal mine. The courts are controlled by the local government which has, at the majority of times, straight relations with the bosses of the private coal mines, the ‘Coal Barons’.

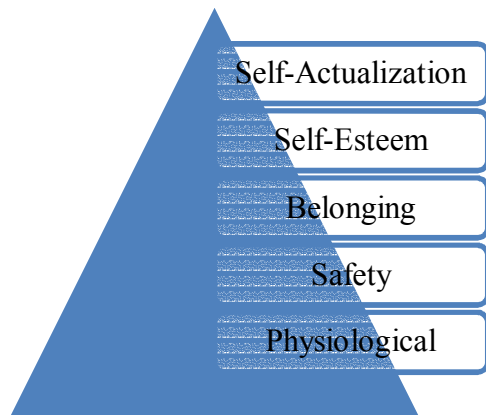
When a country accounts for 1/3 of the world’s output of an industry, but also for 4/5 of the accidents, the background structure is terribly wrong. The organizations must assume the responsibilities and project, side by side with the governments, a sustainable basis that would assure not only the survival of the employees, but also the long-term survival of the industry.

Analysis of the Case 4

The accident on the No. 5 Coal Mine is an example of how dangerous is the Coal Industry in China. Events similar to this one are very common and the accounting of 4/5 of the world's industry accidents can prove it. The insecurity of the workplace is a common target of public riots, however, people who work on industries, such as the coal one, barely see any improvements on their working place conditions.

On the explosion of the 2002 in the No. 5 Coal Mine, 92 workers died. The explosion could be avoided with efficient shafts, something that would require investment from the management and, ethically speaking, the analysis of the situation has its focus here. According to Thomas Donaldson,¹⁰ there are some practices that are wrong no matter the culture or the tradition that serves as context and the disrespect of human dignity is one of them. The 92 fatalities show that there was no respect for the human life. Moreover, there was still no respect shown for the human dignity when the government established the level of the compensations to the families of the dead workers between 1200 and 6400 Yuan.

Another incredible phenomenon happening in this industry is the "Body Smuggling". Its cause is the dubious law of the no declaration of the accidents when the death record is inferior from 3. The disregard for the human condition is a fact. Not only due to the lack of importance of these people lives to the government, but also because of the bodies disposal ritual.



Maslow pyramid sustains that an individual will only look for the satisfaction of certain necessity, if the ones in the pyramid's lower level are already satisfied.

In the No.5 Coal Mine case, none of the human needs were taken into account, not even the physiological ones.

¹⁰ Thomas Donaldson, *Values in Tension: Ethics Away from Home* (2003).

An incident of this nature would be severely condemned in the most developed countries of Europe, America and Oceania; major opponents of China in the world's economy. Though, China has a particular path of controlling any unexpected and undesirable events that could possibly trigger the society's rage. The difference between the official and the unofficial accident statistics is the most dramatic proof of the information and people's opinion control.

The inexistence of government supervision and the cruel abuse of legal policies against women and minors working in mines are other ethical problems on the coal industry. Although they assume a secondary role when confronted with the dead people issues, if these behaviors were modified towards a more esteem for the human condition, the death count would be lower. Creating and sustaining a corporate culture in which employees, customers and suppliers are treated not as mean to an end, but as people whose intrinsic value must be acknowledged should be compulsory. Producing safe products and services in a safe workplace might be an absolute reality in some countries, but in China their reality was never that one, and still isn't. The urgency in producing resources that would sustain a country in a rapid progression towards the frontline has a dark side that is beyond the discussion of ethics and social responsibility.

Despite the analysis of the *Shadow Factories*, the *New Balance Goes to China* and the *Milk Scandal* cases were about ethical problems that could be identifiable by following analysis and conclusions, the No. 5 Coal Mine case is related to a more imperative topic. Acknowledging that in the *Milk Scandal* case there were also fatalities, the continuous avoidable accidents in the mines ascends almost to a level of crime. Ethics is as much an organizational as a personal issue and the necessity on the creation of some core values that would serve as universal standards is getting stronger as the globalization, the living standards and the perception of the social responsibility among the societies increase. Any activity that violate one of those core values should be considered as unethical in any part of the world and should also be punished, accordingly.

Identified unethical behaviors: Regular avoidable accidents in Chinese mines, "Body Smuggling" and the cooperation of the government with the non enhancement of the law.

Approach: The profit goal at any price – the consideration of the human life only as a mean to an end.

IV. ANALYSIS OF THE CASES ON A CORPORATE SOCIAL RESPONSIBILITY PERSPECTIVE

At the present time, business ethics are accepted as one of the most important dimensions in a firm and its importance is descendent of a moral value, widely implemented in the global market of today. The rights and the legitimate interests of the stakeholders should be one of the firm's core focuses. The most recognizable term to define the act of doing business in an ethical and social responsible manner is CSR (Corporate Social Responsibility). In the light of its competitive position, a company has to develop its own strategy of social responsibility. Within countries, different business and social organizations may have different expectations and apply different standards in respect of various sides of social responsibility.

Definition of CSR

The European Commission defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis, as they are increasingly aware that responsible behavior leads to sustainable business success”.¹¹ To slightly complement this point of view a statement of Mariano Nieto Antolín and Roberto Fernández Gago in their article *Responsabilidad social corporativa: la última innovación en management* can be added “Companies that adopt social responsible practices, adjust their strategies and establish new internal management processes that accounts not only the economic perspective, but also a social and environmental one”.¹² While the CSR practices are widely recognizable and supported in the occidental industrialized world, in China, they are relegated to a second plan if they, somehow, compromise the economic results. Neither the Chinese central government nor the private sector in China has been showing any concern on CSR practices and even the multinational enterprises that operate there, some of them ‘first movers’ in the CSR practices adoption in their home countries, do not seem to

¹¹ Bert van de Ven and Ronald Jeurissen, *Business Ethics Quarterly: Competing Responsibly* (2005), volume 15, Issue 2 ISSN 1052-150X pp.299; Commission of the European Communities, *Communication for the Commission Concerning Corporate Social Responsibility: A Business Contribution to Sustainable Development* (Brussels: COM [2002]): 347 final p.3.

¹² Mariano Nieto Antolín and Roberto Fernández Gago, *Responsabilidad social corporativa: la última innovación en management* (2004) pp.28.

endorse much consideration for the pollution, environmental damage, corruption, human rights and child labor in that territory.

On this thesis, I used 4 cases of unethical behaviors in which there weren't adopted CSR strategies as the West defines it. In the following cases, the repercussions were different and more dramatic in some cases than others. The challenge is to analyze and conclude which behavior can be classified as culturally acceptable or as unethical even in the Chinese reality, in spite of the international standards of CSR.

Cases:

1. *Shadow Factories*
2. *New Balance goes to China*
3. *Milk Scandal*
4. *No. 5 Coal Mine*

The reason why I chose these particular cases was due to the fact that they represent old trends of corporate behavior in China. The selection process of the cases was pre-determined in order to arrange examples of common behaviors that summarize the actual reality of the Chinese industry. The millenary culture of China remains very particular and the Globalization allowed other cultures to dissect it, criticized it and even to make some conclusions about it. Although it might not seem reasonable to formulate judgments on cultures, there are some topics that need to be discussed and modified in order to not only create a society where the human life is protected, but also to boost conditions to dignify it. Ultimately, to establish a path towards a better world!

Probably, the biggest challenge that Chinese government has to deal in this new decade is the necessity of reinventing the model of doing business inside the country. Demographic shifts, population movements, environmental tragedies and the rising Chinese social awareness dictate a need for a radical overhaul of how the CCP is leading the country's destiny. The social performance of Chinese enterprises is beginning to be noticed internationally, as China becomes the second largest export country in the world and attracts the most Foreign Direct Investment (FDI) in all developing countries. Traditional social approaches give the impression of inefficiency and appear increasingly archaic as knowledge and civil society networks, open source standards and e-communities, such as the new 'bang' within the blogosphere, convert the

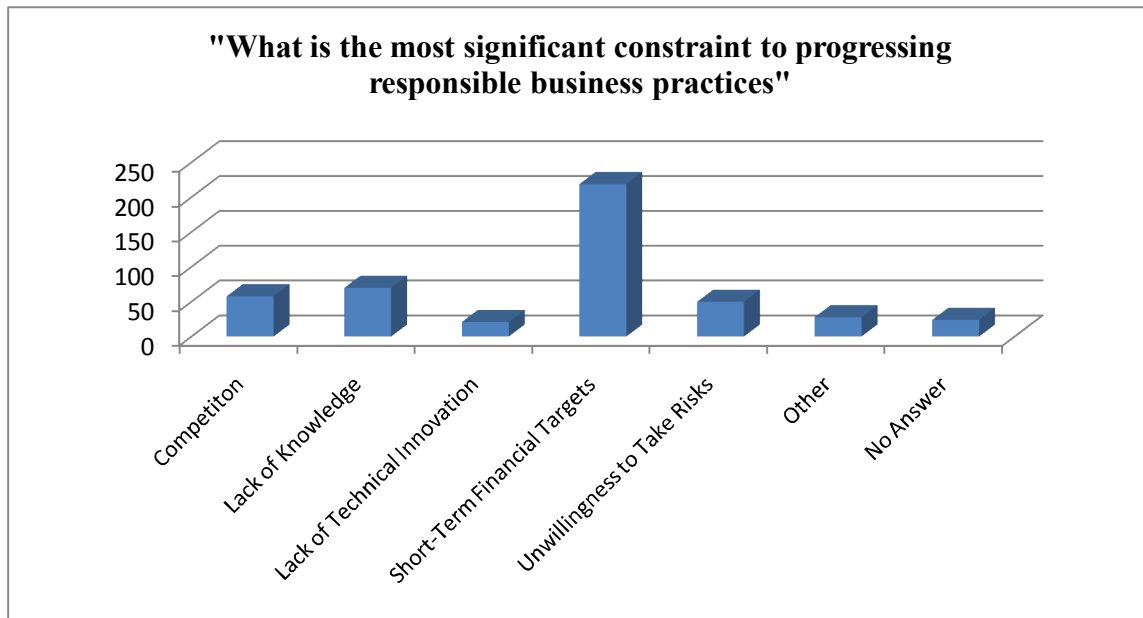
basis on how people come and live together. An atmosphere of more social respect and responsibility can't be created either through government or business actions alone. Cooperation between government and the industry already exists, but it needs to be redesigned. In both *No. 5 Coal Mine* and *Milk Scandal* cases, a clear partnership between the two entities is the source of the following unethical problems, in which, the central government should act as a referee and control the social harmful behavior adopted by those companies, instead of promoting it by creating laws and adopting dictatorial measures when they need to protect the country's image. Nevertheless, the astonishing economic growth that China face the last 30 years were supported by certain types of behaviors that were discovered by the worldwide society and became infamous. As it was previously stated, a change in the industrial perspective is needed, yet, first and foremost, one issue must be clarified: Can responsible business practices be a responsible competitive advantage for China?

One survey conducted by the Ethos Instituto, a Brazilian CSR (Corporate Social Responsibility) organization and a global reference on the theme, had optimistic results. The survey was on one of the G100 (the *Fortune* magazine ranking), a large American chemical company, in which the top 500 managers were submitted to a questionnaire. From the whole questionnaire, I will expose the results of two questions that appear to define the concrete implementation structure of social responsibility and ethical behavior in the industry.¹³



Source: Simon Zadek (2005). *GOING TO SCALE: Aligning Corporate Responsibility to Strategies for Business and National Competitiveness*

¹³ Simon Zadek, *GOING TO SCALE: Aligning Corporate Responsibility to Strategies for Business and National Competitiveness* (2005), Instituto Ethos Reflexão, pp. 12.



Source: Simon Zadek (2005). *GOING TO SCALE: Aligning Corporate Responsibility to Strategies for Business and National Competitiveness*

To conclude this survey's results, it is possible to claim that the vast majority of senior managers across the company believe that responsibility can be part of our long-term value proposition. On the other hand, the short-term financial target is the single biggest constraint to advance corporate responsibility inside most companies.

In a certain way, this survey sums up the whole picture. Though it might represent only the politics on American and European multinational enterprises, it should affect the Chinese market soon, since the majority of them are Players in the Asian market and also because, a considerable part of them, have their manufacturing process located in China. *Wal-Mart* and *New Balance* are just two examples of companies that should influence the implementation of CSR practices and don't betray it as they are doing. However, the disappointment caused by such unethical performances of this high profile companies might suppose how other international enterprises act in China. Eugene Chan, the manager of the factory that produces for *Wal-Mart*, adds that "everyone is aware of the backstage movements", which are, according to him, the basis of the "China Price".

The balance between the ballooning of the brand image resulted from the adoption of CSR practices and the urgency in short-term financial results raise one important doubt in the Director's Board of a company. Managers who are aware of the social roles and the impact of their business may still hesitate between two positions: Reactive vs. Proactive¹⁴. Whether some issues have not been fully clarified or the manager does not enjoy fully understanding and support of the top management and shareholders on social responsibility issues, it is frequently easier to adopt a reactive approach. Only in case of specific requirement, pressure, threat, law, standard, inspector report, crisis or disaster, the action is taken. A proactive posture requires vision, foresight, courage and a relevant level of risk. Moreover, it will involve methodical analysis, negotiation, communication and, sometimes, confrontation. It may promote a company's image of reliance, competitiveness and also pioneering; though, it can also be too costly and unsustainable, when the self-imposed standard is far ahead of the industry standard. Applying the *No. 5 Coal Mine* case, coal miners will probably wait for the government to adopt a reactive approach, since the industry model is archaic and risk-averse. A proactive model of CSR will probably condemn the economic profit due to the high costs of security improvement and the low costs of accident compensation. The tiny margin practiced by the factories on both *Shadow Factories* and *New Balance goes to China* cases, rises the expectation of an inexistence proactive approach. The factories do not want to lose the customers to other factories and they would only adopt more responsiveness in reaction to some legal requirement. In the actual scenario, a proactive posture will be a death sentence, since the CSR is not recognized by their customers that only seek the minimum manufacturing price.

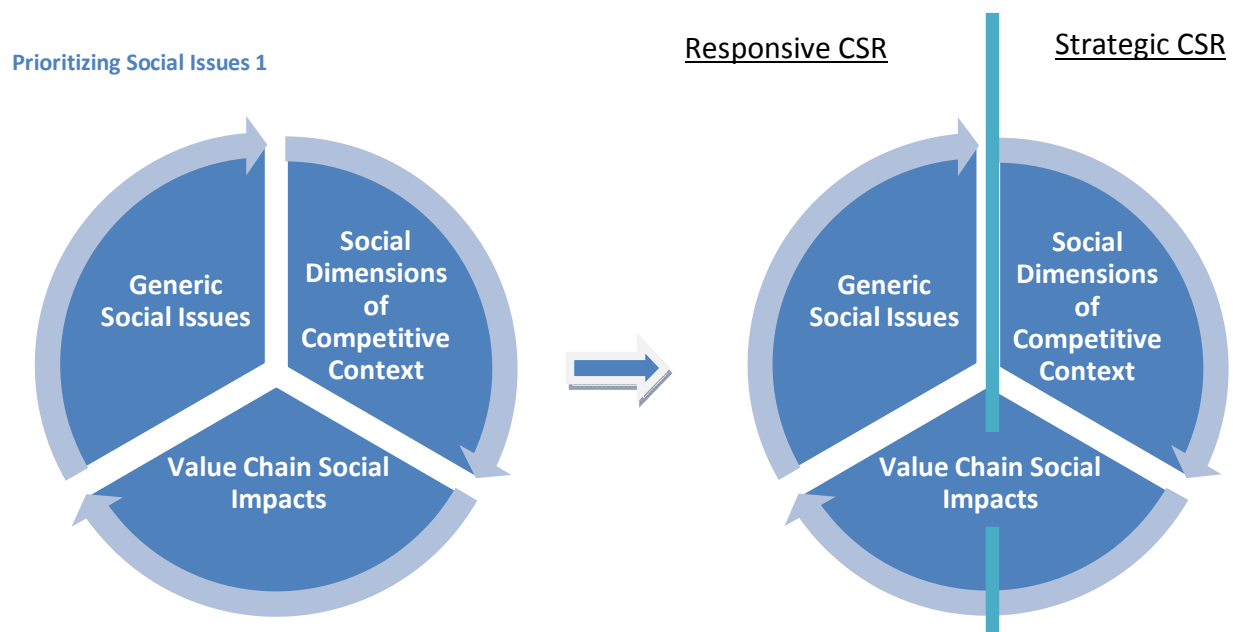
Other relevant survey about the same topic was prepared by the consulting company *PricewaterhouseCoopers* in 2003 and it is called *CEO survey*.¹⁵ An interview conducted through more than one thousand CEOs from 43 countries, concluded that 79% of them find the adoption of CSR practices as primordial for future company benefits. Moreover, 71% of them agree in the sacrifice of the short-term profits, to inflate the maximum potential of the company in the long-term. This survey also concludes that the CEOs of the major companies are trying to align the

¹⁴ Steve Rochlin, *Consulting on the Social Role and Responsibility of Business*, Center for Corporate Citizenship pp.9

¹⁵ Mariano Nieto Antolín and Roberto Fernández Gago, *Responsabilidad social corporativa: la última innovación en management* (2004) pp.31; PWC (2003): *CEO Survey. 6th annual global CEO survey. Leadership, responsibility and growth in uncertain times*. PricewaterhouseCoopers & World Economic Forum.

CSR practices in their strategies. These companies are the real opinion makers and they should be the model for all the other companies. Still, the gap between the communication and the reality continues to exist. In the 8th place of the 10 most admired companies in the world was *Wal-Mart*. Ironically, *Wal-Mart* was the core of the first case. The internal promotion of ethics and the following communication to the consumers are very important, yet, not enough and not why ethics is about. When the factory manager, Mr. Chan, claims that the auditions are done with ‘one eye open and one eye closed’, he is, indirectly, sustaining that the American multinational knows that there isn’t just that factory. He supports it by, persuasively, indicate they are informed about that, that specific factory, isn’t able to produce that much, though, as long as they meet the deadlines, they simply don’t care. From a world leader on the retailing market, this attitude can influence its competitors in a negative way by showing that, despite the behavior advertised, in the end, the lowest possible price is what really matters. There are two possible perspectives of CSR, which can be divided into 3 dimensions of social issues that complement themselves.

Identifying 2 different perspectives



Source: Michael E. Porter and Mark R. Kramer, *Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility*, 2007

- Generic Social Issues - social issues that are not significantly affected by a company's operations nor materially affect its long-term competitiveness
- Value Chain Social Impacts – social issues that are significantly affected by a company's activities in the ordinary course of business
- Social Dimensions of Competitive Context – social issues in the external environment that significantly affect the underlying drivers of a company's competitiveness in the locations where it operates

Every company will need to sort social issues into these three categories for each of its business units and primary locations, in order to rank them in terms of potential impact. These categories can also be divided into two groups: Responsive CSR and Strategic CSR.¹⁶ According to Michael E. Porter and Mark R. Kramer, Responsive CSR comprises two elements: acting as a good corporate citizen adjusted to the evolving social concerns of stakeholders and mitigating existing or anticipating adverse effects from business activities. To harmonizing it, the Strategic CSR is the attitude of improving your competitive context by the adoption of processes and behaviors in tuned with the Responsive CSR. The choice of a position is fundamental and the act of doing things differently from competitors in a way that lowers costs or better serves a particular set of customer needs. Indeed, these principles apply to a company's relationship to society as well as to its relationship to its customers and rivals. In other words, it is about being competent and competitive in both, business and society fields. In responsive CSR, good citizenship can have a generic social impact. For instance, in the *New Balance goes to China* case, the construction of water tanks in the northern rural towns of China would have a generic social impact for the American multinational corporation, although the best corporate citizenship initiatives involve more than writing a check: they are specific and measurable, being a target of continuous tracking. A contribution for the transportation net in the neighbor provinces could also have an impact in the value chain responsive CSR plan. In Strategic CSR, a motivational program focus on the employees would have a value chain social impact, while the supporting of

¹⁶ Michael E. Porter and Mark R. Kramer, *Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility* (2007), Harvard Business Review, pp.10.

a local educational sporting program would have an impact in a social dimension of competitive context.

Create a Corporate Social Agenda

Categorizing and ranking social issues is just half way to the final goal, which is to create an explicit and affirmative corporate social agenda. The achievement of, simultaneously, social and economic benefits, a corporate social agenda needs to look further than the community expectations. It moves from mitigating harm to finding ways to reinforce corporate strategy by advancing social conditions. An agenda is much more than be responsive to stakeholders and the greatest business and social benefits would come from a rigorous strategic CSR one.

Influences on the CSR practices in China

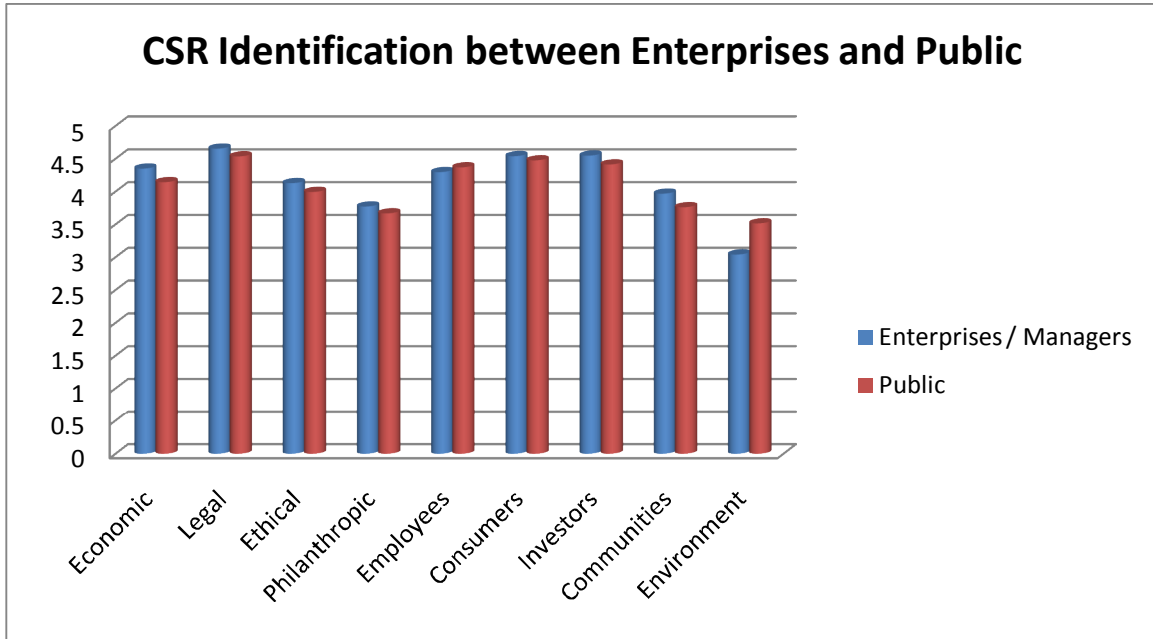
So what influences more the low level of CSR practices in China? Is it a problem of enterprise cognition? Or, is it a problem of enterprise's operating environment?

In a paper prepared for the conference, "US-China Business Cooperation in the 21st Century: Opportunities and Challenges for entrepreneurs"¹⁷ in the Indiana University, United States on April 2009, the results of a large-sample survey on the enterprises and public of Zhejiang province, completed with case studies and interviews, gave some detailed indicators about the CSR perception and implementation level emerged. Firstly, the cognitive level of Chinese enterprises CSR perception was not as low as people might think. Besides, the causes of the ethically erratic business behaviors in China are, mainly, affected by the development stage of its industry and the institutional and cultural circumstances that enterprises face every day. In this survey, the original CSR cognition scale was made up of forty items in total.

¹⁷ Xudong CHEN, *CSR in China: Consciousness And Challenges, A Study Based on Zhejiang Province (2009)*, pp.9.

A 5-point Likert scale was used, ranging from 1- strongly disagree to 5 – strongly agree.

CSR identification survey results 1



Source: Xudong CHEN, *CSR in China: Consciousness And Challenges, A Study Based on Zhejiang Province (2009)*

we can conclude, the enterprises had higher CSR identifications than the public. Though, as it might be expected and explained through the chapter one of this thesis, the CSR identifications towards the environment and the employees were higher in the public than in the enterprises. Yet, some questions may be raised due to the fallacious interference on the CSR cognitive level of a strong social desire, as well as the fact that the province of Zhejiang is one of the most economically developed, with a high level of internationalization. In addition, 84.7% of the intervenient companies were on the mature stage of development, which can explain a broader and bigger endorsement of CSR practices. When it comes to the small or micro-sized enterprises and enterprises having difficulty in surviving, the identifications of CSR would be below average. Back to the initial questions, the answer related to the question about if it is a problem of enterprise's cognition, I would say I believe that the cognition level is not the core of the ethical and social responsible problems that China is facing not only in the industry, but also in the other fields of the economy.

The last question assumes a wider range of structural problems, resulting from the economic policies adopted by the Chinese Communist Party over the last 40 years. The deregulation of the private and foreign-owned sector promoted a complex kind of competition within the industry, unbalancing the distribution of the population and wealth. Consequently, the battle for the survival on such a giant enterprise context began the ‘race to the bottom’. It consists in each factory competing for the international enterprise, winning the one that propose the lowest manufacturing price. The competition intensity increased amazingly which pushed the Chinese economy to an unprecedented level. Labeled as the ‘factory of the world’ and accused of ‘exporting deflation’ China’s economy became over dependent of the cheap manufacture of products, as well as the major enterprises of the rest of the developed world became dependent of their unbelievable low manufacturing price. Nevertheless, to present such an appealing price to the multinationals, the factory costs must be kept to a minimum jeopardizing the internal security investments, the worker’s wage proposed and pushing to an upper level the physical and psychological limit of the employees. Still, it was the only possible manner of manufacturing low-level products with such an economical price. The CSR practices were not even considered in the factory’s unique strategy of meeting the deadlines. Surely, these competitive conditions affect a firm’s social responsibility with respect to specific dilemmas, as well as with respect to the CSR strategy a firm can or should adopt. Besides, a firm’s survivability is an influential moral value and it is determined by the competitive conditions of an industrial sector. In light of the moral value of survivability, managers have the duty to take into account the competitive conditions of their firm, in all the strategic decisions they make, including the CSR related decisions. Yet, there are some considerations that should not be override, for instance, as Bert van de Ven and Ronald Jeurissen defend, “if a certain business violates human rights to stay in business, this could not be legitimized by referring to the instrumental moral value of the firm’s survivability. In other words, if the evil of putting the continuance of a firm in jeopardy is the lesser evil, survival of the firm will be overruled by other moral considerations”.¹⁸ This statement should be the ‘road to drive’ in all business environments, but it is clearly what does not happen in China. All the four cases presented disrespected this theory; two of them slightly, *Shadow*

¹⁸ Bert van de Ven and Ronald Jeurissen, *Business Ethics Quarterly: Competing Responsibly* (2005), volume 15, Issue 2 ISSN 1052-150X pp.300

Factories and *New Balance goes to China*, two of them profoundly, *No. 5 Coal Mine* and *Milk Scandal*.

The level of CSR conscious in the strategies may vary in each scheme, since all the strategies are based in a mixture of vision, calculation, opportunism and experiment. In the *Competing Responsible* article, both authors previously transcribed ask:

“How can firms compete in a morally acceptable way, given the fact that they have to survive in an environment where competition is more or less intense, more or less regulated and more or less susceptible to the scrutiny of influential stakeholders?”

In the Chinese case, we already conclude that the level of regulation is very low, as the *No. 5 Coal Mine* and *Milk Scandal* cases can justify; and the scrutiny of influential stakeholders are very controlled by the information censorship and the erroneous data provided, behaviors demonstrated in all the four cases. In addition, the fierce competition’s intensity, essentially, of the *Shadow Factories*, *New Balance goes to China* and the *No. 5 Coal Mine* cases were another important issue to be analyzed. In those cases, the companies might have considered if it makes a difference, from a moral perspective, to bear considerable costs in order to comply the Law, while most of its competitors do not? Moreover, does reputation always stimulate socially responsible practices?

In China, a fierce competition happens as a consequence of the little or no power to influence prices because the *Porter’s Five Dimensions* are very strong:

1. The entry barriers are low and the brand identity is irrelevant
2. The product can easily be substituted due to the high buyer propensity to substitute
3. Strong bargaining power of the buyers due to its high concentration
4. Strong bargaining power of the suppliers due to a lack of substitute inputs
5. No differentiation in the product

In the developed countries, when an enterprise deals with fierce competition in the market that it is in, the CSR strategies used are limited to the legal compliance, reputation protection and self regulated ethical practices. As long as the brand image is protected, the company strategies should save resources in the CSR practices to apply them in the search for short-term financial

results. The ethical misconduct is punished and the legislation is respected by the great majority of the actors involved.

In the following table, there are the specific CSR strategies usually used according to the levels of industry competitiveness in which they are included.

Specific CSR Strategies 1 under Different Competitive levels

Intensity of competition	Fierce	Strong	Weak
Dominant generic competitive strategy	Low-cost strategy	Product-differentiation strategy	Low-cost or product-differentiation
Specific CSR strategy	Ethical displacement strategy: Self-regulation	Compliance with the spirit of the Law	All CSR strategies are possible
	Legal compliance	Stakeholder management	
	Reputation protection	Brand reputation management and ethical reporting	
		Ethical product differentiation	

Source: Bert van de Ven and Ronald Jeurissen, *Business Ethics Quarterly: Competing Responsibly*, 2005

In the Chinese case, the scenario is totally different. If a factory decides to run its business according to the Law, it will not be succeeded because there is no legal enforcement. While in the developed countries, there is fairness on the competitive conditions, in China, there is also fairness of conditions but to those who do not follow the Law. On the *Shadow Factories*, *New Balance goes to China* and *No. 5 Coal Mine* cases, the managers knew they were disrespecting the Law, but the only reason they acted like that was because it was the way everybody acted. They were conscious that, if they increase the costs by implementing CSR practices, the buyers would immediately switch to a cheaper competitor. There was no room for CSR strategies in the daily routine. On the documentary *Santa Claus Workshop*, a Chinese manager states that most of the customers don't really care about the factory conditions and when they protest about those conditions, the managers assure that, if they pay more 20% of the manufacturing price, the factory will do everything the customer want it to do.

Legal compliance can already be an ambitious strategy of CSR for companies that have to deal with the fierce competition of the market in China. However, there are other circumstances that

contribute for that difficulty in matching the Law. The oversupply in the unskilled labor market deteriorated the labor-industrial relations. Not only the excessive labor supply, but also the opportunity cost of the supply side is close to zero, which contributes to the inexistence of an employee's protection policy since the factories do not have the need to retain them. There is too much labor supply for jobs that don't require specialization. Another important fact is that the younger generation is more undisciplined, which makes unattractive the idea of signing a long-term contract. If somebody requires a contract to work on a factory, there are plenty of them that won't. In a nutshell, enterprises with stronger CSR sense would not have advantage in the competition for unskilled and low-skilled labor. Both in *Shadow Factories* and the *New Balance goes to China* cases, the manager adopted the previously described posture. They knew they would always have labor available, no matter how intense is the employee turnover. On the *No. 5 Coal Mine* case, the situation is slightly different. Since the preponderance of the mines is in the interior of the country, places where the lack of job opportunities is extremely high, the employees have to submit themselves to the jobs available, unless they move to the coastal zones to work in factories, like the great majority of people did over the last decades.

Clash of interests

Succinctly, the whole discussion of CSR is about the right of everyone and everything to claim for something they think they should have. Joseph W. Weiss, defined it as a "moral claim".¹⁹ A right is moral when it is not part of any conventional system, as are the legal rights and it is a claim because it corresponds with a duty on the part of the person against whom the right is held.

In China, the shift of a socialist economy to a market economy had created new problems and raised new preoccupations. In a market economy, employer and employee rights and responsibilities are based on a contrasting, sometimes conflicting, assumptions and values. On the following table, we can see the most common requests in China, from both employers and employees.

¹⁹ Joseph W. Weiss, *Business Ethics: A stakeholder and issues Management Approach* (2003), 3rd edition: Thomson South Western pp.267-272

Identification of the common requests 1

Employers	Employees
Control private property	Claim for Constitutional rights <ul style="list-style-type: none"> • Individual Freedom • Liberty • Control over their private lives
Control property rights over their intellectual property	
Maximize productivity and profits	
Sustain financial growth	
Minimize costs	Improve working conditions
Improve quality	Enhance mobility
Increase marketing share	Ensure job security
Stabilize wages	

Source: elaborated by the Author

In a developed country, the requests would be of another nature, since these rights would be, in the most cases, already satisfied. However, the Chinese reality stands on a different background of the rest of the top 5 economies, which can be supported by the four cases previously analyzed, in this chapter. To fulfill their requirements, the employers condemned the employees' ones. In the *New Balance goes to China* case, the ethics primacy pyramid support this idea. The values of the organization (in this case, the ethics of the managers), always overcomes the values of the individual. Although the employees might protest, which they are doing more frequently nowadays, the lack of legal enforcement always protects the employer's side. In addition, most of the judges in the countryside don't have a law degree. In many jurisdictions, judges had little more than an elementary school education, while others are demoralized soldiers for whom the party needed to find jobs. In one survey, less than 5% of the Chinese judges said they would rule according to the law, if it conflicted with the instructions of their party bosses.²⁰

In a wider perspective of social wellness, after all it is the main basic goal of any CSR plan; other questions arise from the conflict of interests between employers and employees. It is clear that Communists had shown they could deliver economic growth at rates rivalizing with the best days of those European and American democracies, though it is still unclear how well they could meet other expectations of an increasingly complex and demanding society.

²⁰ Philip Pan, *Out of Mao's Shadow: The Struggle For the Soul of a New China* (2008), pp. 280.

- Could their coal mine accidents be stopped by their profit driven model of authoritarianism?
- Could they provide clean water and air to all China?
- Being aware of the Party's control on civil society and its obsessive effort to control churches, advocates, charities and labor unions; could they narrow the gap between rich and poor? Create a social middle class?
- Since they are a communist party inspired in the roots of the Marxism, could they build an effective social safety net?
- Could they abolish corruption and abuse of power without a free press or an independent court?

Aren't these the basic standards of a country to be called developed?

Core Values and the Grey Zone

Thomas Donaldson, an academic specialized in CSR practices, state that there are some practices that are wrong, no matter the culture or tradition, for instance, dumping pollutants for unprotected workers to handle it. To standardize it, Thomas Donaldson proposed the establishment of 3 Core Values.²¹

1. Respect for Human Dignity
2. Respect for the Basic Right
3. Good Citizenship

These 3 values should always be promoted and protected by every company if they want to act ethically. Any activity that violates one of these values is considered unethical in any part of the world. On the other hand, some practices that are unethical in one part of the world, might be socially acceptable in another. An exemplary situation could be the American/European vs. Chinese debate about the wages in China. For the western nations, those wages are subhuman, whilst for the Asians they are acceptable since they are trying to attract foreign investment. In

²¹ Thomas Donaldson, *Values in Tension: Ethics Away from Home*, (2003), Warthon School of the University of Pennsylvania.

these cases, Thomas Donaldson defends the existence of a Grey Zone. A Grey Zone is a moral free space, in which the managers must navigate, as long as they do not violate the Core values.

Therefore, for an analyst educated under the European society common values, it is important to beware of the cultural differences towards the Chinese ethical behavior. Specifically, we must be guided by:

- First and foremost, for the respect for the Core Values, which determine the absolute moral starting point for all businesses,
- The respect for the Chinese tradition,
- The belief that a context matter when deciding what is right and what is wrong.

The method of analyzing ethics and social responsibility, since it is so opened to interpretations, is frequently concluded with more questions than answers. Although it will, probably, be always this way, I believe that the art of asking the right question can be more productive than trying to find the universal answer. As almost every issue in ethics, the perception of the Core Values can be, again, submitted to interpretations based on different cultural backgrounds. Still, according to the Chinese reality and based on the facts of the chapter 1; the corporate behaviors of the 4 presented cases; and the theory discussed on this chapter, I will define the Core Values as:

Respect for the Human Dignity - It consists in creating and sustaining a corporate culture, in which employees, customers and suppliers are treated not as a mean to an end, but as people whose intrinsic value must be acknowledge.

Respect the Basic Right – It consists in supporting and protecting the individual physiological and safety rights of employees, customers and surrounding communities. Companies should avoid what violates the Human Being’s rights to education, safety and adequate standard of living. Safety conditions must be provided to produce safe productions and services.

Good Citizenship – It consists in supporting the economic system and the education system by working aligned with host governments and other organizations. The protection of the environment is primordial.

Conclusion of the cases in relation with the Core Values

Case 1. Shadow Factories

In this case, there is not a record of lack of security in the workplace. Most of the employees work, willingly, more hours than the legal permitted and the environment is not seriously condemned by the activity of these factories. Despite the omission of the 'shadow factories' and the falsification of both payroll and overtime records; the 3 Core Values are respected.

Case 2. New Balance goes to China

In the case 2, there isn't a record of lack of security in the workplace, too. Although, the employees are not satisfied with the working conditions, they are not being dismissed. There are not also problems with wages' payments and the environment is not seriously condemned by the activity of this factory. In spite of the deceptive translation of the multinational values and its procedures list, as well as the legal abusive attitudes towards the employees, none of the 3 Core Values are directly dishonored.

Case 3. Milk Scandal

In this milk tainted situation, there is a seriously negligent attitude towards the safety of the customers. The protection of the public health situation must not be subdued by an individual or group image. Therefore, the Core Value number 2, Respect the Basic Right, is disrespected.

Case 4. No. 5 Coal Mine

Finally, the case related to the coal industry is the more serious one. The managers' behavior towards their employees, the workplace safety conditions and the deaths resulting from working accidents are disrespectful of the Core Values number 1 and number 2. Besides, the "Body Smuggling" phenomenon is misaligned from the expected Good Citizenship implicit on the third Core Values.

.The managerial behavior of the first two cases can be considered as acceptable, although they definitely belong to the Grey Zone. In opposition, the attitudes performed by the management in the last two cases are considerable unethical, due to the discredit of the 3 Core Values.

V. CONCLUSIONS

Notwithstanding the increasing awareness of the Chinese managers and politicians, the cases of CSR deficiency are still ordinary in China's economic and social daily reality. Currently, we are witnessing a slow change in the Chinese social characteristics. Society is racing forward, emerging from decades of violence and tumult, yet, the political system is stuck in the past, with CCP officials struggling to preserve both their power and privileges. Thus, in order to pursue a sustainable and effective CSR tradition in the Chinese enterprises and in the foreign multinational players on the Chinese market, there are some interfering issues that need to be modified. The following paragraphs will summarize the main conclusions of this thesis:

- The improvement of the ethical responsibilities by improving the governance should be assigned as the highest priority since this attitude can provide the key to all the other dimensions, such as economy, rule of law and ethical tradition.
- Another top priority is to endorse the law enhancement, throughout all the Chinese territory. It is necessary that the central government, as well as the provincial governments redesign some aspects of the law. The connection exists, but it should be in another direction. The dynamics should be transformed in cooperation between the business community and the public policies, which can build an environment similar to the main international competitors, based on an improved roll of conditions for corporate responsibility. Due to the fact that an ethical misbehave in a provincial organ of power will compromise all the work developed by higher political institutions, the punishment procedures must be effective and the law must be respected, otherwise, the market players would not be concerned, as well as they would not perceive the importance of ethical attitudes for their business. Strengthen the regulatory authorities is crucial to enable an egalitarian competitive environment and, consequently, to promote CSR strategies amongst the competitors.
- In opposition to the common policies adopted to launch the Chinese economy, the Chinese Communist Party should seek WIN-WIN solutions. Although according to the

nowadays reality of this Asiatic giant, it might seem just a noble theoretical principle, the embracing of practical solutions should be negotiated, developed by a democratic process, adopted by agreement and recommended to stakeholders (imposed if needed). This would be a slow ever-changing process, though it should be implemented now, to amplify the chances of China to sustain itself in the future, especially in environmental protection measures.

- The exemplary CSR practices of some enterprises should be highly advertised and protected by the Chinese central government, if the cooperation between the central and the provincial governments already exists. In the case of a recognizable misalignment between these two political organizations, the provincial organ should be the elected to protect and award the good CSR practices. Moreover, the provincial government would be more easily aware of the companies' efforts and the companies' performances on this area. Since China's enterprises are only beginning to learn the modern concept of CSR, social and financial benefits conceded by the different state institutions would serve as a motivating factor to act in accordance with the good CSR practices.
- A sustainable plan to develop an internal market should also be a main dossier on the Politburo's table. The recent attempt of the Chinese government to widen the domestic market was focused in the support of the luxury tendency in China. Nevertheless, and despite the big revenues generated by this trend, some aspects must be more rigorously prepared in order to improve the efficiency and, at last, save money. An example of these unplanned procedures is the construction of the Dongguan's South China Mall, the biggest in the world, which only has less than 10% of its store space leased. Even in Beijing, the systematic inaccurate planning policies are responsible for one third of the Beijing's office capacity lying vacant, when a shortage of housing for ordinary people is a national reality. China must be more than a patchwork of regional markets at various stages of economic development, bound together as a nation, but extremely separated in terms of governance, communications, challenges and regional rivalries. The existence of a stronger internal market would decrease the actual pressure on the outputs of the factories, create job opportunities and improve China's economical independence from

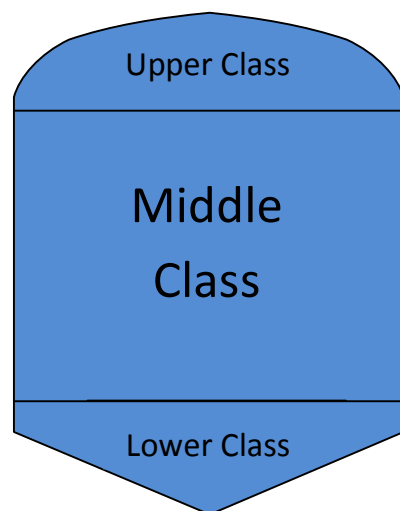
the outside world. The foreign dependence of 40% of China's needs is a nightmare for the government, in which most of the countries is either unstable, or belong to the sphere of influence of the strategic competitor, specifically, the USA.

- As a mean for the previous measure, the Chinese government must promote the creation of a broader social middle class. A well implemented social middle class is what differentiates an economic powerful country from a developed country. The first assumption that the rising prosperity would, consequently, create a middle class does not seem to be happening. People who belong to the Chinese tiny middle-class are now in powerful positions, wealthy and satisfied with the system that puts and holds them there. Needless to assure that, for the western standards the acclaimed Chinese middle class belongs, actually, to the upper class.



The inexistence of a middle class is the actual situation of China. In each developed country the majority of the people belong to a middle class responsible for sustaining the domestic market.

In a developed country, the social structural pyramid is similar to the following one:



As any developed society in the world, a strong social middle class must be a reality to permit the development of a solid and independent domestic market. Though, it will also be more critic of the government's performance and more aware of the dark side of China's 'economic miracle'.

A popular saying in China review effectively the whole scenario: “the relationship between officials and people during the 1950’s through 1970’s was of ‘fish and water’ (support); during the 1980’s was ‘oil and water’ (separation) and during the 1990’s was ‘fire and water’ (confrontation)”.

- At last but not the least, the central government should encourage the Chinese citizens to assume a more social responsible way of living. Starting by the example of the high cadres of the CCP, which should discontinue attitudes such as huge bills for official lunches and crime’s immunity, the future of China also depends on the Chinese people behavior. As income rise, mainland citizens are giving first class education to their children, buying cars, buying houses, eating more and more expensive food and using more electricity to run their electrical and household devices. A question arise among these facts: Will Chinese people consume at the same rate as Americans nowadays?

The following table demonstrates some secondary level consumption that is rising in China.

Consumption Indicators (US Currency)	China	United States of America
Cell-phone Users	461 million (35 per 100 people)	219 million (73 per 100 people)
Cable TV subscribers	139 million (11 per 100 people)	110 million (37 per 100 people)
Private Cars	11.5 million (9 per 1000 people)	136.4 million (450 per 1000 people)
Airline Passengers	160 million	658 million

Source: TIME Magazine, March/19 2007

The answer would be: Impossible! If Americans continue to consume at this rate, Chinese people will never consume as much as Americans, not because they do not want to, but simply because the world does not have enough resources to satisfy 1.3 Billion Chinese consuming at such level.

Chinese leaders must march in the opposite direction of Mao's speech at the inaugural meeting of the Natural Science Research Leaders, in 1940, when he stated "man must use natural science to understand, conquer and change nature and thus attain freedom from nature". This attitude towards the environment is the reason of the current, almost catastrophic, pollution in China.

VI. THE COMING REVOLT

Nonetheless, there are two possible opponent perspectives of analyzing China's current situation: the external against the internal! The external viewers are overwhelmed by the Chinese conquest. On one hand, the world has never had to deal with such a large, cheap and versatile workforce joining the globalised economy in such a short period of time. On the other hand, never before such a large country emerged so quickly. Still, the Chinese people that live in mainland China have a different opinion. They see a country filled with extensive signs of distress. The deserts of the north are marching towards the town and the waterways that just ten years ago were gushing effusively torrents have slowed to a trickle or even disappeared altogether. Food is contemned with, not only illegal and alarming levels of animal hormones, but also with agricultural chemicals. There are strange new diseases as SARS and Bird Flu appearing with regularity and the air pollution is so intense, that in 2010, due to respiratory diseases, 380.000 people are predicted to die. The Chinese great economic growth had always rested in weak ecological foundations. The worst of all, the environmental exhaustion has already crossed the boundaries and is stepping into the international arena.

China is experiencing an upsurge in peasant protests unprecedented in its post-1949 history. From 2003 to 2006, mass protests almost double its number, with 250 protests per day. Meanwhile, the CCP continues to enjoy a monopoly of power, refusing to tolerate any organized opposition. Independent labor unions and churches are still illegal and the party still exercises firm control over the courts. A major paradox emerge with Chinese people feeling that the country is changing too quickly to comprehend, while it seems that it is running in the same place. This country has become a victim of its own success as the world's leading manufacturer

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of labor-intensive consumer goods. The rush of investment in factories has driven down profit margins and driven up prices of everything from raw materials to workforce.

The decade that is starting now will, possibly, recognize the importance of a well-balanced society for the future and sustainability of a country, specially, if it has the size of a continent. The expected increase on the CSR strategies of the main enterprises of China would liberate the government to focus on the, presently, three social mountains to escalate: Health Care, Education and Housing. Still, this trail would not be peaceful. A revolt might be coming...

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