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Klaus Nielsen:

Achievements and Challenges of the Chinese Model of Capitalism - How much can be explained by Confucianism?

Introduction

Since the economic reforms in the late 1970s, China has experienced continuous high growth rates and a transformation of a historically unseen scale and scope. Hundreds of million people have been lifted out of poverty and the material infrastructure has undergone an astonishing renewal. Growth rates were maintained after 2007 by means of a massive fiscal stimulus programme. There is certainly potential for continued high growth rates but major challenges are on the horizon. China will experience the most radical demographic change in the next decades with an enormous rise in dependency rates in the next 30-40 years. China face enormous environmental and social challenges with air pollution, toxic rivers, weak food security, huge income inequality, exploitation of workers, lack of social security and a highly inefficient health system. Further, corruption is endemic, not the least in the form of land seizures by local government officials. The challenges are caused by outdated and inefficient institutions, such as weak property rights, the system of fixed residency (hukou), and a politicized legal system, which are only partly and imperfectly offset by benevolent discretionary action by the central leadership.

This chapter takes a cultural economic approach in an analysis of these achievements and challenges. It is assumed that everywhere economic action and business practices are heavily influenced by the taken-for-granted effects of deep-rooted cultural characteristics. Evidence of the importance of culture on human behaviour is manifold. One striking example is the radically different responses to similar event in different cultures. For instance, a comparison of the aftermath of the flooding caused by the Katrina hurricane in New Orleans in 2005 with the Tohoku earthquake and tsunami in Japan 2011 reveals huge differences. Whereas the aftermath of the Katrina disaster was characterized by chaos and individual acts of enrichment and violence, the natural disaster in Japan was followed by civic cooperation and restraint illustrated by patient queuing.

In this chapter it is analysed to what extent the deep-rooted norms and values of Confucianism impacts on economic relations and the behaviour of economic agents in China today. It is assumed that basic Confucian values such as the importance of the family, group mentality, stability, loyalty to superiors, paternalism and reciprocity underpin business practices and economic governance. Culturalist explanations of the successful economic development of Chinese societies are not without its critics (Dirlik, 1997). Further, Confucianism has been under attack by the Chinese Communist party and it may recently be losing some of its grip as a result of capitalism, individualism, materialism, and the huge structural transformation in recent decades.

The chapter aims at an interpretation of the achievements and challenges of the Chinese model of capitalism which stresses the role of Confucian culture underpinning the growth process. Further, the chapter analyses to what extent Confucianism is at odds with the requirements and pressures of the modernization of Chinese society as claimed by Max Weber in his seminal book 'The Religion of China'. In this chapter, we argue that although

the impact of Confucianism is ambiguous it has mostly facilitated and supported the emergence of the highly successful capitalism in China.

However, the ongoing modernization of China puts pressure on the Confucian cultural heritage. New middle class norms stress quality of life and self-determination in ways that challenges the behavioural norms. Further, the introduction of a full blown capitalist economy, has led to business scandals, exploitation, corruption and corporate excesses. The widespread dissent, protests and even riots that have emerged in recent years can be interpreted as anger over violations of basic Confucian values. Together, the protests inspired by the Confucian heritage and the emerging individualism and middle class norms put pressure on the current model of development.

The chapter is based partly on reviews of the literature on Confucianism and its economic effects, and partly on interviews with professionals and managers in China as well as observation field notes from six study trips to China in 2010-14. The primary data is collected in the Northern Chinese provinces of Heilongjiang, Jilin, Liaoning and Shandong and in Sichuan in Central China. Supplementary data from newspapers and other contemporary sources are included in order to counterbalance the potential impact on the findings of the Northern bias in terms of data collection. While the chapter is based on the collected data it does not include thorough documentation but will rather present some major conclusions illustrated by selective evidence.

The paper is structured as follows. The next two sections provide a brief summary of the major traits of Confucianism and a historical perspective on the status of Confucianism in Chinese society. Then, Max Weber's famous analysis of Confucianism as a hindrance for the development of capitalism in China is revisited. The following sections outline the Confucian characteristics of the contemporary Chinese model of capitalism by way of distinguishing between the factors that underpin and facilitate the economic growth process and the factor that impede growth. Then, this is discussed in relation to the ongoing modernization of the Chinese society. The emergence of crony capitalism with negligence of environmental and social costs and extreme exploitation of labour had led to conflicts and protests against what may be interpreted as a violation of basic Confucian values. The final section describes the recent restoration of Confucianism and discusses its significance.

Confucianism - a brief introduction

The ideas of the Chinese philosopher Confucius (551-479 BC) did not gain official recognition in China until centuries after his death (Schumann, 2015). However, his followers were successful in establishing Confucian ideology as a powerful system of moral, political and social principles governing nearly every aspect of Chinese life since the Han era (206 BC-AD 220). As a philosophy considering proper behaviour and human relationships, Confucian influence has expanded to and penetrated many other Asian countries, including Japan, Korea, Singapore, Vietnam and is today probably more strongly embedded outside of China, mainly in Korea but also in Taiwan (Yao, 2000; Schumann, 2015).

Confucian thought stresses the importance of five relationships and five virtues representing the social sphere and individual morality, respectively. Confucianism emphasizes harmony, hierarchy, and development of moral potential and kinship (Buttery and Leung, 1998). It focuses on five core relationships in society: emperor-subject, father-son, husband-wife,

elder-younger brother and friend-friend. All these relationships involve a set of defined roles and mutual obligations. Each individual should conform to his or her proper role and act properly. With the exception of the last relation, all the others are hierarchical and dominant-subservient in nature. The other side of Confucian ideology is represented by five virtues (benevolence, righteousness, propriety, wisdom and trustworthiness) which nurtures the inner character of the person and furthers his or her ethical maturation.

Thus, if one side of Confucianism is the conformity and acceptance of social roles, the other is the cultivation of conscience and moral through education and reflection in a lifetime commitment to character building. It generates a high ideal for family interaction, i.e. that family members treat each other with love, respect and consideration for the needs of all, and it prescribes a lofty idea for the state, i.e. that the governor is the father to his people and looks after their basic needs (Wang et al, 2005). These two conforming and reforming sides of Confucianism define principles for appropriate individual behaviour in relation to others in a social hierarchy.

In more than two millenniums Confucianism was entrenched in Chinese society as organizational principles and behavioural guidelines officially sanctioned and supported by education. However, Confucianism lost its official recognition and privileged position with the collapse of Imperial China in the early 20th Century. Confucianism was seen as part of the reason for the stark decline of China. Its rigid, traditional view of social interaction was deemed incompatible with the requirements for adapting to the challenges of the modern world.

After the Communist revolution, the official status of Confucianism reached its nadir. Confucianism can be seen as a foundation for the success and acceptance of Communism in China with its stress on subservience, stability and benevolent leadership. However, it was seen by the new Communist rules as preserving status quo and hindering the required societal changes. In particular, during the Cultural Revolution, vestiges of Confucianism was vilified and purged as an ideology that hindered the creating of ‘the new socialist man’. Since then Confucianism has experienced a quiet revival from absence of opposition through passive acceptance to tentative official recognition. Since 2014, the communist party has officially endorsed Confucius and other classical Chinese thinkers, while tightening restrictions on Western influence in art, academia and religion (Page, 2015). Some observers interpret this as an opportunistic means to mobilize support for the anti-corruption campaign (Schumann, 2015) but it signifies a significant change of discourse and can be seen as a reflection and recognition of the role of Confucianism in facilitating and supporting the momentous economic growth in China in recent decades.

Revisiting Weber’s ‘The Religion of China’

Max Weber argued in “The Religion of China” (Weber, 1951, first published in 1915) that, while several factors provides China with good material conditions for development of a capitalist economy they are outweighed by the legacy of Confucianism which he saw as a religion. According to Weber, Confucianism does not facilitate but rather hinder/obstruct the emergence and functioning of Capitalism. His analysis of China provides the anti-thesis to his analysis of the puritan Protestantism which he claimed provided the ideal spiritual foundation for a well-functioning capitalist system. His analysis can be briefly summarized in four points.

First, Confucianism is not disposed to methodical control and rationalization of life, due to its world accommodating nature. Instead of changing the world, adjusting oneself to it is seen as virtuous. Second, because of its veneration for traditions and respect for ancestors, Confucianism is inherently sceptical toward technical inventions which disturb established patterns of behaviour. Third, extended kinship groups protect its members against economic adversities and decrease the motivation for payment of debts and work discipline. Fourth, Confucian ethics rejects professional specialization, expert bureaucracy and special training due to the notion that “a cultured man” is seen as an end in itself and not just a means for a specified useful purpose or a functional end. Weber sees instrumental rationality like specialization, professionalization and bureaucratization as crucial features of the modern age, and he stresses that the lack of emphasis on law and professional specialization are elements of Confucianism which constitute barriers to the rise of capitalism in China.

How Confucianism underpins the economic growth process

There are several features of Confucianism that has facilitated the extraordinary economic success story of contemporary China. Confucianism impacts on economic behaviour and relationships in various ways. Many scholars have argued that Confucianism is the bedrock upon which the economic success of China and other Chinese societies rests (Chan, 2008; Hang, 2011; Wu & Leung 2005; Yin, 2003). This section covers the main factors but is by no means exhaustive.

First, the crucial role of hierarchy and harmony in Confucian thought implies loyalty and obedience to superior authority. Subordination and acceptance of all kinds of authority is considered natural, including corporate management and the leading role of the Chinese Communist Party. This has no doubt facilitated implementation of policies at the macro level and corporate leadership at the micro level. Chen et al (2014) show how affective trust mediates the relationships between benevolent and moral paternalistic leadership and employee performance. Another effect is a low inclination to dissent and rebel in case of adversity. Kung and Ma (2014) concludes a historical study comparing incidents of peasant rebellions in case of natural disasters in different regions of China that the inclination to rebel was significantly lower in regions where Confucianism was strongly embedded compared to regions where this was less so.

Second, Confucianism implies a strong work ethic. The obligations of subordinates include persistence, perseverance and willingness to endure hardship in their work efforts. This has served the Chinese economy well. Chinese workers are generally hard-working and willing to work long hours. There is also a widespread acceptance of precarious working conditions. This is most pronounced for migrant workers. The result is an extraordinary large pool of numerically flexible, cheap, hard-working labour willing to take on all kinds of tasks and working conditions. The advantages for company in terms of cost competitiveness are obvious.

Third, self-reliance of the extended Chinese family based on mutual obligations facilitates capital accumulation in several ways. Self-reliant families guarantee free access of (often well educated) labour for capital, facilitate small-scale entrepreneurship and take care of most of the core tasks of the welfare state without any costs for capital or the state.

Fourth, thrift is a Confucian virtue that complements the economic and social reproduction in the family. China has an extraordinary high private savings ratio. This is to some extent a necessity in the absence of a welfare state but Confucian norms include a predisposition for thrift. High savings are necessary in order to secure financing of the costs involved in the mutual family obligation as outlined above. Small-scale entrepreneurship prospers in China in spite of lack access to finance. This is facilitated by thrift as indicated by a willingness to save a large share of earned income to save for the start of own businesses. The mirror image of virtuous thrift in Confucian thought is a negative view of unnecessary spending. Conspicuous consumption is considered a vice.

Fifth, there are both positive and negative incentives for virtuous behaviour. Having a sense of shame which is inherent in Confucianism supplements the positive incentives. Virtuous behaviour is facilitated by the negative incentive to avoid the embarrassment of feeling shame. Shame is not only an internal phenomenon but may have public manifestations, e.g. managers are publicly shamed in case of business scandals.

Sixth, one of the defining characteristics of Confucian societies is the extraordinary importance attached to education (Frederickson, 2002, 618-619). Confucian ethics advocates respect for learning, teachers and scholars. Great importance is placed on formal education and knowledge-based learning (Han, 2013), examinations, academic achievements and diplomas (De Bettingies & Tan, 2007, 20). Education is assumed to reap huge cultural and social benefits. It also has obvious economic benefits.

Seventh, group orientation rather than individualism is a strong, highly significant trait of Confucianism. Group identity dominates individual identity. This trait obviously facilitates teamwork including associated reward mechanisms. Responsibility to the collective strengthens commitment at the work place. Organizational citizenship behaviour prevails. Zhuang et al (2005) show a perhaps surprising effect of such behaviour. Chinese employees are more willing to engage in whistleblowing against their peers than employees in the USA. However, they are reluctant to blow the whistle in case of superior's misbehaviour as in this respect they are not significantly different from employees in the USA.

Eighth, *guanxi* is the widely used Chinese term for a special type of group orientated behaviour in Chinese societies that involve intense networking, reciprocity and trust. It has some resemblance with social capital but represents more encompassing, intensive and long term commitments (Parnell, 2005). *Guanxi* is a person's social nexus encompassing family, friends, school and university alumni and acquaintances in positions of influence. The bonds it creates must be maintained by courtesy visits, banquets and gift-giving and politeness rituals must be followed strictly. To a large extent business deals take place in the context of *guanxi* and several scholars attribute the success of the Chinese entrepreneurs to the benign characteristics of *guanxi* (Buttery & Wong, 1999; Guo & Miller, 2010; Park et al, 2001; Yang & Wang, 2011). Hsu (2005) compares the effect on *guanxi* versus an apparent similar phenomenon in Russia 'blot'. Whereas *guanxi* builds trust and reaches out, blot has led to predatory behaviour. *Guanxi* has both positive and negative economic consequences. It provides access to resources within a context of trust, reciprocal obligations and informal governance of exchanges that compensates for the absence of appropriate legal, regulatory and financial institutions. Some scholars identify advantages that go beyond such compensatory functions. One of the benefits of *guanxi* is the information offered on government policies, market trends and business opportunities. They also improve efficiency by reducing transaction costs (Fan, 2002). Davies et al (1995) suggest an underlying structure

of four factors: it facilitates procurement, information gathering, reduces bureaucracy and smoothens transactions. Others focus on its less benign effects which will be covered in the next session.

How Confucianism impedes economic growth

There has been a tendency in the research literature to stress the positive impacts of the Confucian framing of economic behaviour and relationships. However, the impacts are not uniquely positive. Traditional Chinese culture is only partly conducive to entrepreneurship (Liao & Sohmen, 2001). In this section we will focus on some of the traits of Confucianism that impede rather than foster economic growth.

First, subordination, obedience and respect for authority and tradition have not only economically positive impacts. It also results in lack of initiative and creativity. The acceptance of superior's leadership prerogative often makes subordinates abstain from making proposals for solving problems. Chinese employees often show less proactive participation and less independent and critical thinking than their Western counterparts (Wang et al, 2005, 320). This hampers innovation and efficiency (Jacobs et al, 1995) as well as the advocacy part of organizational citizenship behaviour (Bolino, 2006).

Second, Confucianism underpins the tendency to rely on networks and authority rather than legal rules and formal contracts. Often formal contracts are made but neither adhered nor enforced. This reflects a general management style known as 'ruling by man' rather than 'ruling by law' (Wang et al, 2005, 320-321). There is a dislike of formal contracts and a lack of standard procedures and policies for decision making (Jacobs, 1995). In business transactions, ruling by man implies deal making and problem solving through personal interactions instead of following business regulations (Kirby and Fan, 1995). This makes business transactions beyond the boundaries of *guanxi* networks difficult and costly. It also means that top decision makers have the final authority with few legal constraints and their decisions are unquestionable. For instance, interviewees reported how managers often consider formal rules and regulations including employment contracts as something that can be ignored or changed unilaterally if required.

Third, in employment relations, 'ruling by man' gives managers discretion that often has negative consequences on professionalism and competence. Wang et al (2005, 321) outline the following manifestations: "(a) employee selection is based more on *renqing* (human feelings) and *guanxi* than on personal competence; (b) promotion is conducted on the basis of loyalty and social acceptance; (c) compensation is largely based on seniority rather than performance; and (d) performance evaluation is largely qualitative and tends to be subjective". This is not only based on the side of Confucianism that stresses the importance of hierarchy and harmony. It also reflects the stress on the importance of character building and strengthening of morality of leaders rather than professional skills, both in education, work and governance.

Fourth, although the reliance on *guanxi* in business relations does constitute a flexible and adaptable vehicle for business transactions based on in-group loyalty and trust it may also impede economic growth. Fan (2005) concludes that the benefits of *guanxi* are exaggerated. The benefits for business are seen as outweighed by the time-consuming and expensive efforts required to develop and maintain *guanxi* (Fock & Woo, 1998). Further, *guanxi* as a

personal asset cannot be a source of competitive advantage. It does not live up to the criteria by being valuable, rare, non-imitable or non-substitutable (Fan, 2002, 553-554). Park et al (2001) shows that guanxi clearly contributes to sales growth but does not improve net profits. Guanxi is important in relation to establishing external relations and legitimacy but does not improve internal operations. Rather, the high costs to cultivate and maintain guanxi offset the benefits from market expansion.

Fifth, there are obvious negative effects of guanxi in government-business relationships. Guanxi encourages nepotism, favouritism, 'under the table' dealings, bribes and other forms of corruption that seems to pervade China's business environment. The guanxi between a business person and a government is inherently corrupt and ethically questionable (Fan, 2002). Luo (2008) analyses the intertwinement between guanxi and corruption. The study concludes that "guanxi is implicated in almost all big corruption cases. One particular feature is that corruption has evolved from individual wrongdoings into institutionalized corruption that often involve a complicated guanxi network between high-ranking officials and private businessmen" (Luo, 2008, 192). For instance, case studies have shown that guanxi between environmental regulators and industrial enterprises strongly influences the implementation of environmental policies and results in less stringent enforcement of legislation at the local level (De Betingues & Tn, 2007, 23)

Sixth, an important aspect of guanxi is gift giving and reciprocity linked to the Chinese concept of mianzi (face). Mianzi involved 'giving face' and 'maintaining face' or 'protecting face' (Hwang, 1990). To give 'face' means to show respect for your counterpart's status and reputation. To maintain or protect face means to stay trustworthy and honour one's obligations in social interactions. Giving favours to the weaker parts of a relationship demonstrates power or capacity beyond one's peers and indicates a gain in 'face'. Reciprocity implies an obligation to return a favour whenever called upon. Subordinates can always give superiors face by asking favours from them although this is limited by the code of reciprocity. The outcome of this spiral of 'giving face' and reciprocity is a costly drain on business in terms of gift giving and favours in various forms.

Confucian dynamics

Most contributions to the literature give priority to either the positive or negative effects of Confucianism on economic growth. Hofstede & Bode (1988) is different in the sense that they see Confucianism as a combination of values oriented toward the future (persistence/perseverance, ordering relationships by status and respecting this order, thrift, having a sense of shame) and values oriented toward the past (personal steadiness, protecting your face, respect for tradition, reciprocity of greetings, favours and gifts). Hofstede & Bode attempt to make sense of societies influenced by Confucianism in relation to the four cultural dimensions identified in Hofstede (1984): power distance, individualism/collectivism, masculinity/femininity and uncertainty avoidance. Hofstede & Bode found that societies influenced by Confucianism are characterized by high power distance as well as high collectivism and low individualism whereas they do not show significant characteristics in relation to masculinity/femininity and uncertainty avoidance. Further, they introduced a new variable 'long term orientation' which is seen as relatively high in societies influenced by Confucianism (Buttery et al 1998). Dunning & Kim (2007) test propositions about whether power distance and collectivism, respectively, lead to a strong perception of guanxi and find strong support.

Hofstede & Bode introduce the concept of ‘Confucian dynamism’ which in their view has facilitated the stellar performance of Chinese economies in China and beyond. Such dynamism depends on the specific context and is associated with the relative strength of the Confucian values oriented toward the future and the relative weakness of values oriented toward the past. Whereas the values oriented toward the future stimulate growth, the backward oriented parts of Confucianism have contrary effects. Cases where the future oriented values are stronger than the past oriented values show more economic dynamism than cases where the Confucian values oriented toward the past are more entrenched. This opens up a perspective of social engineering (Yin, 2003). Economic growth can be facilitated by strengthening some aspects of Confucianism while suppressing other parts. Other scholars have criticized Hofstede & Bode for the introduction of the dimension ‘long-term orientation’, and hence ‘Confucian dynamics’ concept, as such, and argue that Confucianism is a package that comes as a whole, i.e. it is impossible to separate the positive and negative economic impacts of Confucianism (Fang, 2003).

Modernity

The concept of Confucian dynamism signals the actual or at least potential of accommodating Confucianism with the requirements of the modern world. This runs counter to Weber’s characterization of Confucianism (Nuyen, 1999). We shall take a closer look at the conflicts and the compatibility of Confucianism with modernization or modernity.

Modernity originates from the Enlightenment and as such it is not a novel phenomenon. Weber took account of the rise of modernity as it manifested itself in the late 19th and early 20th Century. Still, a century later modernization is an on-going process with uncertain outcomes. Protests against manifestations of modernity and counteracting movements prosper currently with the resurgent societal role of religion and vestiges of the pre-modern world persist.

Modernity is a wide ranging concept taking account of the ensemble of particular socio-cultural norms, attitudes and practices linked to a modern society. Modernization entails the emergence of a multitude of emerging phenomena, such as questioning or rejection of tradition; the prioritization of freedom and formal equality; faith in inevitable social, scientific and technological progress and human perfectibility; rationalization and professionalism; a movement toward profit orientation, capitalism, and the market economy; industrialization, urbanization and secularization; the development of the nation-state and its constituent institutions (e.g. representative democracy, public education, modern bureaucracy) and forms of surveillance; sexual freedom and increased role of women in all spheres of life. Perhaps the most important aspect of modernity, however, is increasing importance of the individual, eventually replacing the family or community as the fundamental unit of society.

Confucianism and modernity

China has arguably undergone a rapid modernization process since the economic reform process started in 1979 and the consequent opening up for foreign investment and Western cultural influence. This raises a number of questions related to the Confucian cultural legacy:

How has modernization impacted on this legacy? Has Confucianism hindered or facilitated the modernization process? Has Confucianism shaped the manifestations of emerging modernity in China, and if so, how? In order to provide preliminary answers to these questions we shall start by evaluation how 'modern' Confucianism is.

It is evident that Confucianism is modern in some respects and distinctly unmodern in others. A strong belief in human perfectibility is part of the Confucian legacy. This constitutes a favourable environment for technical progress, organizational change and institutional reform which fits well with modernity. In addition, the impact of Confucianism on economic behaviour and relationships, as outlined above, and, in particular what Hofstede & Bode called Confucian dynamism, facilitates in many ways the development of capitalism. Other aspects of modernity are at least not incompatible with Confucianism. This is the case with some of the institutions normally associated with modernity such as representative democracy (Ackerly, 2005; Xu, 2006). However, Confucianism is indeed unmodern in many respects. The reverence for tradition and stability imply resistance to the dynamics of social change that characterizes modernization. The obedience of subordinates in hierarchies runs counter to the ideal of formal equality and freedom. Further, rationalization and professionalism are challenged by the requirements of guanxi and the 'ruling by man instead of ruling by law'.

There are pressures for change in relation to all the dimensions of modernity in modern China. Some of these pressures are being suppressed or modified by the Chinese Communist Party. Some of them challenge deep-rooted Confucian values.

Individualism is definitely on the rise as an effect of Western cultural influence and increasing middle class affluence. This is perhaps particularly significant among the young, urban professionals that were interviewed as part of this research project. New middle class norms and aspirations are manifest as articulated by a young female professional (married to a middle ranked party official):

- *As all our friends we would move abroad if possible, preferably Japan and alternatively Canada, Australia or the USA*
- *Why?*
- *Because quality of life is so poor in China. The pollution, especially air quality, is intolerable. The low food security is a major concern. Welfare is poor with insecure pensions and malfunctioning health system that requires access through personal network to get proper treatment, money is not enough. Life is stressful, not the least for school children and parents"*

The underlying preferences are not unlike similar groups in Western countries and other emerging economies. However, in China the rise of individualism is restrained by the strong, socially and culturally entrenched, role of the family. Concerns for the family take precedence and puts limits to individualist behaviour. Part of it is sheer necessity in the absence of proper welfare state services and unavailability of credit for business start-ups. Typically, parents not only finance their offspring's education, including studying abroad, and the purchase of their first flat. They often also provide financial support for starting up a small business enterprise. As everyone who has been around in a big city in early morning will be aware, grandparents also have family obligations. They compensate for the inadequate supply of public childcare by picking up their working offspring's children and caring for them until their parents come back from home. On the other hand, grown up children expect

and are expected to take care of their parents when they get old. One of the economic consequences is a constraint on geographical mobility. Proximity of parents (and grandparents) is important for working adults, and they do not seem to imagine the possibility of moving too far away when their parents become old or experience bad health. In many interviews I searched for expressions of discontent for being restricted in terms of individual freedom by the burdens of reciprocal family support as is common in Western countries but found none. These reciprocal obligations are apparently perceived not merely as a necessity but as a deep rooted expression of filial piety.

Another impact of modernization is a tendency for at least the group of young professionals that I interviewed to become less subservient and less constrained by the Confucian respect for authority and belief in hierarchy and harmony. Education and Western influence provide them with a broader outlook which makes them more inclined to express open dissent and to demand influence and self-determination. Still, this tendency is muted but it is obvious that changes are in process.

In addition, several studies show scepticism toward inherited forms of group orientation, most prominently in the form of guanxi. Recent empirical studies show reservations toward this deeply ingrained practice. Andersen & Lee (2008) conducted a survey of managers in Hong Kong and young middle class in China. Both groups understood and used guanxi but did not like it or enjoyed its use. Both groups anticipates a diminishing use of guanxi when China's regulatory and market environment improves. It seems to be a predominant perception that guanxi is wasteful, inefficient and responsible for the widespread corruption. According to a Chinese professor in management

- *“... guanxi takes too much time and is very costly. People wastes valuable time by nurturing business contacts and links to government officials. Further, the costs of building and maintaining connections reduce the profit margin of many companies. This creates severe deadweight losses in firms and in the economy as such”*

The negative perceptions of guanxi are particularly prominent among the younger generation. Studies show that young Chinese are more sceptical in this respect than older Chinese (Lin & Ho, 2009). Attitudinal differences between young and old regarding practices based on Confucian values and norms are not restricted to differences in relation to guanxi. This was evident in the conducted interviews and is supported by other indicators and other studies. The evidence makes it reasonable to conclude that the younger generation, the new middle class and the well-educated professionals are carriers of modernization which to a certain extent challenges inherent cultural traits of Confucianism. Experiences through foreign travel, overseas studies and the (albeit controlled) internet led to new life style aspirations and a desire for greater self-determination and influence on decision making in companies and government. Traditional values such as filial piety are becoming modified under the impact of modernization (Hwang, 1999). On the other hand, some of the unmodern Confucian traits such as family orientation and the stress on harmony and stability are widely accepted and culturally and socially entrenched which shapes the modernization process and can be expected to result in a specific Chinese form of modernity

Crony capitalism, exploitation and immoral profit seeking

In one respect the emergence of modernity has been extremely fast, freewheeling and largely unrestrained by cultural inhibitions. Capitalism and markets have been promoted without any constraints. This has been successful in terms of decades of extremely high growth rates but it has also resulted in the emergence of one of the most unequal societies in the world (World Bank, 2013, 46-54) and a variety of capitalism characterized by widespread cronyism, extreme exploitation of labour and unregulated profit seeking which is as far removed from the morality advocated by Confucianism as possible. Confucianism has the potential of providing a mental framework for an indigenous Chinese form of corporate social responsibility. A study of owners of manufacturing or business firms who harbour Confucian moral values concludes that they give priority to moral principles over material gain in cases where there is a conflict or tensions between morality and profit (Cheung and King, 2004), in accordance with the explicit priority of righteousness over profit in classical Confucian texts (De Betingies & Tan, 2007). However, manifold recent business scandals show widespread disregard of corporate social responsibility and evidence of immoral profit seeking.

Ip (2009) takes stock of the moral doldrums created by the socially irresponsible profit seeking through a brief account of three major scandals where unscrupulous profit maximizing behaviour has led to environmental degradation, product safety issues, and extreme exploitation of labour and violation of labour rights.

Air pollution and toxic rivers have recently become major issues of concern. These are among the most visible but far from the only incidents of large scale ecological degradation in China. The absence of a coherent system of environmental legislation combined with weak and ineffective enforcement, lead to negligence of environmental protection in favour of unrestrained economic growth. Corruption in local government, feeble central control and business-government cronyism further exacerbates the problems.

Product safety is another major concern (Khan et al, 2009). Negligence of health dangers puts consumers at risk. This is an effect of efforts to cut corners in the pursuit of maximum profit in an environment of weak regulation and guanxi corruption. Ip (2009) and Lu (2009) list a number of scandals and crises: tainted pet food, contaminated toothpaste, toxic toys, defective tyres, and fake medicine. The mess is linked to weak regulation and lack of enforcement. However, irresponsible and immoral capitalist profit seeking reinforces the problem. In the last decade, China has tightened monitoring of safety and quality of food and pharmaceutical products. However, public trust in the capability and willingness of the government to take the safety issues serious is low and difficult to regain. The continued emergence of new food safety scandals (The Guardian, 2013) contribute to an open cynicism among the professionals and managers interviewed in the context of this study.

- *“I worry a lot about food security. After the last scandal with contaminated vegetables I avoid street vendors and only buy foreign products. I use a lot of time on precautions and efforts to reduce risk”.*

Widespread violation of labour rights is another consequence of legally and morally unrestrained profit seeking. Working and employment conditions vary from relative high salaries, employment security and the associated social security (the so-called ‘iron rice bowl’) in state owned enterprise to low wages, precarious working conditions and absence of security in private companies. This is particularly the case for the estimated 200 million workers who have migrated from poor rural villages to urban areas to take up low-paying, dirty, unsafe and unhealthy jobs in the manufacturing and construction industries (Ip, 2009,

212). The violation of the migrant workers' rights are extensive and frequent, partly because they are the most marginalized and powerless group. The violations include withheld or delayed payment of wages; longer working hours than stipulated in state regulations; failure to pay overtime pay; physical and verbal abuse from employers and security staff, and appalling conditions in their living quarters (Ip, 2008, 213). In addition, migrant workers are not covered by accident insurance and only few have medical insurance. Their plight is worsened by their status as rural rather than urban citizens (the so-called 'hukou' system), which implies that they have no access to social services and medical care and their children have only access to education in the rural areas from where they originate (World Bank, 2003, 32-33).

However, also workers in state owned enterprises experience serious labour issues. Coal miners earn relatively high wages but endure extremely dangerous working conditions. According to official Chinese statistics the number of deaths from mining accidents is enormous, i.e. the number of deaths per ton of coal is hundred times higher than in the United States.

Other labour issues include forced labour and human trafficking which are not unusual in China. The arrests and convictions of several hundred people, including local communist party officials, responsible for organizing slave labour in Shanxi and Henan provinces (BBC News, see Ip, 2009) appear to be only the top of the iceberg.

Emerging conflicts and protests

The costs of socially irresponsible corporate behaviour have become more evident and the underlying dissatisfaction with the situation has seemingly increased. However, dissatisfaction is not only tacit and underlying. Increasingly it takes the form of open dissent, conflict and protests. Recent years has seen protests against government inactivity in relation to pollution and the collusion between business interests and local governments. Other issues such as access to education and pension rights have also given impetus to public expressions of dissatisfaction (Financial Times, 2016a; The Economist, 2014). However, by far the most prevalent causes for conflicts and protests in recent years are labour disputes, and to an even larger extent, land grab by local governments and developers.

Labour protests have become far more frequent recently. According to official statistics, the number of major disputes increased from 23 in 2007 to 209 in 2012 (Financial Times, 2015a). The increased frequency of labour unrest is linked to the increasing relative economic power of labour as a result of early signs of depletion of the reservoir of cheap migrant labour but the underlying cause is the extreme exploitation and the violations of labour rights. The labour disputes range from protests against closure of plants (Financial Times, 2016b) by relatively privileged workers in state owned industries to suicides and threats of mass suicide by migrant workers as desperate protests against the slave-like employment condition (Daily Telegraph, 2012).

However, the most frequent and most disruptive and violent protests have been rural protests against widespread land grab (World Bank, 2103, 30-31). All land is owned by the state. Peasants have property in terms of the right to use their piece of land and ownership of its proceeds. They own their house and the associated equipment and livestock. However, the state, or, in practice, the local government has the formal ownership and the ultimate right to

expropriate all land at a price corresponding to its value in agricultural production. After the advent of the financial crisis in 2008 the revised Chinese economic growth strategy gave priority to infrastructure and construction projects. This resulted in a building boom and rapid extension of urban space. Local governments expropriates peasant land for what is seen by the expropriated part as a compensation which is far too low, failing to take account of their investments in the place, providing them with no opportunities to acquire new land or accommodation of similar standard. The land is then resold to developers for a much higher price. The differential contributes a crucial part of the local government budget, and deals are often associated with kickbacks to local officials.

More than four million rural inhabitants have lost their land to local governments every year since 2008 (The Guardian, 2014). The land grab has fuelled anger and widespread protests in many rural areas. Frustrated by futile attempts to restrain local governments petitions have been made to the central government in Beijing. In 2010, a total of 180.000 petitions related to alleged land grab were made (Hodgson & Huang, 2012). At least 39 farmers resorted to suicide in desperation/protest against eviction (New York Times, 2013). Even violent riots are not uncommon. In Chengdu alone, several violent incidents are reported every day (Financial Times, 2015b). Recent riots in Wukan and Fuyou resulted in many deaths of protesters as well as government officials and policemen (Hodgson & Huang, 2012; Financial Times, 2015b).

More Confucianism as solution

The entrenched crony capitalism is partly a consequence of the dark side of guanxi and, as such, of the Confucian cultural heritage. However, the emerging business scandals and public protests can also be seen as caused by too little Confucianism. Immoral profit seeking can be seen as a result of too much unrestrained modernity and too little Confucianism. The perpetrators seek economic gain and shun their responsibilities to subordinates. They fail to adhere to the five virtues. They are no Confucianism 'gentlemen'. Corruption, exploitation of labour and land grab is caused by violations of the Confucian requirements of mutual obligations, reciprocity and paternalism. In other words, part of the reason for the anger and protests is the breakdown of the implicit Confucian contract of hierarchy and harmony because of superior's moral deficiencies. Institutional reform is probably the most important part of the cure but moral restoration, business ethics and corporate social responsibility may also have a role to play (Han, 2013).

Recent political initiatives point in this direction. The Chinese Communist Party has recently restored Confucianism as a moral foundation seeking a fresh source of legitimacy by reinventing the party as inheritor and saviour of a 5,000-year-old civilization. Since 2014, the party has publicly ordered its officials nationwide to attend lectures on Confucius and other classical Chinese thinkers. Confucianism is being reintroduced in the education system. Textbooks are being rewritten, curricula revised and teachers retrained to inject a solid dose of Confucian thinking in the education system (Page, 2015). Even 'traditional' civil servant examinations have been introduced in parts of China (Hang, 2011, 439). At the same time the access and use of Western textbooks and cultural influence is being reduced.

It remains to be seen if the restoration of Confucianism is here to stay or rather a brief interlude similar to episodes in the past. Is it a means to counter the spread of Western political ideals of individual freedom and democracy in a reversal of cultural values and

ideology, or is it a temporary fix to boost legitimacy of the regime? Or, is it a serious attempt to inject much-needed Chinese-style moral restoration, business ethics and corporate social responsibility?

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