

Ethical Issues in Doing Business in China

Araş. Gör. Serkan ADA

Kahramanmaraş Sütçü İmam Üniversitesi, İ.İ.B.F., İşletme Bölümü, KAHRAMANMARAŞ

ABSTRACT

In the 1980s and 1990s China was cited by some of the international organizations because of its violations of basic human rights. However, multinational firms from most of the countries criticizing the China's violations began to do considerable amount of investments to China in the 1990s and 2000s. They moved their manufacturing activities to China because of valuable opportunities, incentives, and cheap work force. They pursued this action regardless of Chinese government's carelessness to its own citizens. Despite this fact, should these firms do additional investment in order to produce their products with lower levels of costs? Is this an ethical decision? In this study, this issue is argued out and some points are recommended from the perspective of international firms.

Key Words: China, Foreign Direct Investment, human rights, working conditions in China.

Çin'de İş Yapmanın Etik Sorunları

ÖZET

1980'li ve 1990'lı yıllarda bazı uluslararası kuruluşlar, Çin'in temel insan hakları konusunda bazı ihlallerde bulunduğunu belirtmişlerdir. Fakat, Çin'in bu ihlallerini eleştiren birçok ülkenin çok uluslu şirketleri 1990'lı ve 2000'li yıllarda Çin'e hatırı sayılır miktarlarda yatırımda bulunmuşlardır. Bu şirketler, değerli fırsat, teşvik ve ucuz işgücünden dolayı üretim faaliyetlerini Çin'e kaydırmışlardır. Şirketler bu hamlelerini, Çin hükümetinin kendi halkına karşı olan ilgisizliğini ve bu ülkedeki ihlalleri dikkate almadan yapmışlardır. Bu gerçeğe rağmen, şirketlerin ürünlerini düşük maliyetler ile üretmek için ek yatırımlarını Çin'de yapmaları doğru mudur ve etik midir? Bu çalışmada, bahsedilen konular incelenmekte ve uluslararası firmaların perspektifinden bazı önerilerde bulunmaktadır.

Anahtar Kelimeler: Çin, Yabancı Direkt Yatırımlar, İnsan Hakları, Çin'deki Çalışma koşulları.

INTRODUCTION

Recently, there is a debate over the subject of "ethics", particularly in international business issues. The reason of this debate is because of multinational firms' unethical operations in overseas countries, such as China. It is unethical, because most of these firms do not conduct their business by following the rules when they are conducting the same business in their home country. For instance, they pay more attention to some issues, some of which are product safety, work safety, and other working conditions, in their domestic operations. However, the same firms abuse the regulatory and legal environment in such countries like China.

A Chinese organization, called China Labor Watch, has a website which contains information with respect to the problems, concerns, and issues of labor force in China. There is a survey in this website concerning the ideas of

participants whether they believe that Chinese Labor Laws can protect labor rights or not. Considering these results, it is obvious that 42% of participants have answered the questions as “No protection at all”, out of 2391 participants (China Labor Watch, 2006). This may not represent the ideas of the majority or an indication of what people believe. However, it gives a small idea about working conditions in China. As a matter of fact, there are some opinions on this issue. What’s more, there were and there are some examples of these kinds of implications, such as the example of Ohio Art Company.

II. A Toy Manufacturer and Its Unethical Implementations in China

The Ohio Art Company is known as the producer of one of the top selling toys of all time, the venerable Etch-A-Sketch. More than 100 million of the familiar red rectangular drawing toys have been sold since 1960 when it was invented. The late 1990s, however, became a troubled time for the toy’s maker. Confronted with sluggish toy sales, the Ohio Art Company lost money for two years. In December 2000, it made the strategic decision to outsource production of the Etch-A-Sketch toys to Kin Ki Industrial, a leading Chinese toy maker, laying off 100 U.S. workers in the process. The rationale for the outsourcing was simple enough. The company had to keep the costs of Etch-A-Sketch under \$10 in order to compete with the big retailers, such as Wal-Mart and Toys “R” Us. Otherwise, the company would lose money. It was paying \$1500 a month for unionized workers in the U.S., while it would pay \$75 a month for a Chinese worker. After beginning to produce in China, the main savings came not from lower wages, but from lower overhead costs for plant, maintenance, electricity, and payroll, and the ability to get out from the soaring costs of providing health benefits to U.S. manufacturing employees. Everything was going well until New York Times published in December 2003. The *Times* reporter painted a dismal picture of working conditions at the Kin Ki factory that manufactured the Etch-A-Sketch (Hill, 2006: 26).

III. Legal Issues in China

During the late 1980s and early 1990s, China was routinely cited by various international organizations such as Amnesty International and Freedom Watch for major human rights violations, including torture, beatings, imprisonment, and executions of political dissidents. Despite this, in the late 1990s and early 2000s, China received record levels of foreign direct investment, mainly from firms based in democratic societies such as the United States, Japan, and Germany (Hill, 2005: 83). As mentioned in the example of Ohio Art Company, some of the companies in these nations misused the poor legal environment and working conditions in China. What changed in China and was it ethical for these companies to move their manufacturing activities to China?

China's first national labor law was passed by the National People's Congress on July 5, 1994. Effective January 1, 1995, the Labor Law of the People's Republic of China is a blueprint that will shape labor relations to the

contours of China's burgeoning market economy and unify legal treatment for employers and employees in foreign-invested as well as domestic enterprises. The new law touches on every important aspect of the employment relationship and the workplace. In relation to hiring and firing, Beijing has codified provisions on the following; recruitment, discrimination, contracts, and termination of contracts and dismissal. An important objective of the new law is to prevent exploitation of workers, especially in foreign-invested enterprises. The new Labor Law thus clarifies and confirms rules governing working hours, wage levels, and other issues relating to worker safety and training. As with prior labor laws, the new law delegates most of the responsibility for enforcement to local labor bureaus (Markel, 1994: 46)

As seen above, Labor law set by the Chinese government in Beijing are not severe. "Labor Law of the People's Republic of China" allows factory managers to negotiate with local governments over working hours and minimum wage requirements. Chapter 5 of the Labor Law document deals with "wages". Article 48, in its entirety, sets the tone for Beijing's non-regulation of pay and work hours in China (Fox et. al., 2005: 319):

"The State shall implement a system of guaranteed minimum wages. Specific standards on minimum wages shall be stipulated by provincial, autonomous regional and municipal peoples governments and reported to the State Council for registration. The employer shall pay laborers wages no lower than local standards on minimum wages."

It is obvious that these legal arrangements are not adequate and applicable by international investors to full extent. If the major human rights had not been violated in China by international companies, the ethics issue would not have become a controversy of some civil society institutions.

IV. The Other Side of the Coin: China's Strengths

China is now an investment paradise for investors. It is on tops in rankings, even it is number one in most rankings. The reason is the changing and improving value of China, because of government's incentives and regulations, and cheap work force for the investment and production, particularly in labor-intensive manufacturing.

What's more, the country overtook the United States in attracting FDI in 2002, and it may well become the world's largest economy in 2020 (Yin et. al., 2005: 3).

For instance, there is an index called Foreign Direct Investment Confidence Index including the ranking of countries which have potential investment opportunities. FDI Confidence Index tracks the impact of the likely political, economic and regulatory changes on the foreign direct investment intentions and preferences of the leaders of the world's leading companies. The Index is computed as a weighed average of the number of high, medium, low and "no interest" responses to a question about the likelihood of direct investment in a market over the next one to three year period. Index values are based on non-

source country responses about various markets. All Index values are calculated on a scale of zero to three, with three representing highly attractive and zero not attractive. Particularly, in 2004 and 2005 indices, it is observed that China is the best choice of the investors as mentioned in the following table (FDI Confidence Index, 2005).

Table 1: FDI Confidence Index 2005, Top 20

| 2004 Ranking | 2005 Ranking | Country | Index Value (0 to 3 Scale) |
|---------------------|---------------------|----------------|-----------------------------------|
| 1 | 1 | China | 2.197 |
| 3 | 2 | India | 1.951 |
| 2 | 3 | United States | 1.420 |
| 4 | 4 | United King. | 1.398 |
| 12 | 5 | Poland | 1.363 |
| 11 | 6 | Russia | 1.341 |
| 17 | 7 | Brazil | 1.336 |
| 7 | 8 | Australia | 1.276 |
| 5 | 9 | Germany | 1.267 |
| 8 | 10 | Hong Kong | 1.208 |
| 19 | 11 | Hungary | 1.157 |
| 14 | 12 | Czech Rep. | 1.136 |
| 29 | 13 | Turkey | 1.133 |
| 6 | 14 | France | 1.097 |
| 10 | 15 | Japan | 1.082 |
| 22 | 16 | Mexico | 1.080 |
| 13 | 17 | Spain | 1.075 |
| 18 | 18 | Singapore | 1.072 |
| 9 | 19 | Italy | 1.055 |
| 20 | 20 | Thailand | 1.050 |

SOURCE: FDI Confidence Index 2005, Global Business Policy Council

There are so many multi-national firms that have investments in China. It is obvious that China's success to be on tops in rankings attracts many famous and reputable multinationals around the world as seen in the following table.

Table 2: Top invested multi-national firms in China, 2002

| Ranking | Rank in Fortune 500 | Company | Country of Origin |
|----------------|----------------------------|----------------|--------------------------|
| 1 | 21 | Volkswagen | Germany |
| 2 | 138 | Motorola | US |
| 3 | 147 | Nokia | Finland |
| 4 | 210 | Ericsson | Sweden |
| 5 | 22 | Siemens | Germany |
| 6 | 41 | Honda | Japan |
| 7 | 32 | Hitachi | Japan |
| 8 | 105 | Samsung | Korea |

| | | | |
|----|-----|------------|-------------|
| 9 | 143 | Philips | Netherlands |
| 10 | 45 | Matsushita | Japan |
| 11 | 180 | Lucent | US |
| 12 | 189 | Bell | US |
| 13 | N/A | Epson | Japan |
| 14 | 70 | HP | US |
| 15 | 3 | GM | US |
| 16 | 141 | Mitsubishi | Japan |
| 17 | 37 | Sony | Japan |
| 18 | N/A | Isuzu | Japan |
| 19 | 293 | Sanyo | Japan |
| 20 | 77 | Toshiba | Japan |

SOURCE: Chinese Ministry of Commerce, Department of Foreign Investment Administration

V. Human Development Index and China

A research shows that China is not in a bad place by considering the Human Development Index (HDI). The HDI is a composite of three basic components of human development; longevity, knowledge, and standard of living. It has been designed by United Nations Development Program in order to reflect the condition of an average person in a country and includes index values for 174 countries (UNDP, 2006). According to this index formed by Amartya Sen, a Nobel Prize-winning economist, China has a score between 0.651 and 0.800 before 1980s which means the country is in higher-medium human development class. After middle 1980s, the country seems to make a good jump by increasing its level from higher-medium to high human development class which is a good indication for this nation by looking at the applications (Human Development Report, 2005).

Table 3: Human Development Index

| Rank | Country | Human Development Index | | | | | | |
|------|---------------|-------------------------|-------|-------|-------|-------|-------|-------|
| | | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2003 |
| 1. | Norway | 0.868 | 0.888 | 0.898 | 0.912 | 0.936 | 0.956 | 0.963 |
| 2. | Iceland | 0.863 | 0.886 | 0.896 | 0.915 | 0.919 | 0.943 | 0.956 |
| 3. | Australia | 0.848 | 0.866 | 0.879 | 0.893 | 0.933 | 0.960 | 0.955 |
| 4. | Luxembourg | 0.840 | 0.851 | 0.858 | 0.884 | 0.911 | 0.929 | 0.949 |
| 5. | Canada | 0.869 | 0.886 | 0.909 | 0.929 | 0.934 | – | 0.949 |
| 6. | Sweden | 0.864 | 0.874 | 0.886 | 0.897 | 0.929 | 0.958 | 0.949 |
| 7. | Switzerland | 0.879 | 0.890 | 0.896 | 0.910 | 0.921 | 0.940 | 0.947 |
| 8. | Ireland | 0.811 | 0.826 | 0.845 | 0.870 | 0.894 | 0.929 | 0.946 |
| 9. | Belgium | 0.846 | 0.863 | 0.878 | 0.899 | 0.929 | 0.949 | 0.945 |
| 10. | United States | 0.867 | 0.887 | 0.901 | 0.916 | 0.929 | 0.938 | 0.944 |
| 11. | Japan | 0.857 | 0.882 | 0.895 | 0.911 | 0.925 | 0.936 | 0.943 |
| 12. | Netherlands | 0.867 | 0.879 | 0.893 | 0.908 | 0.928 | 0.939 | 0.943 |
| 13. | Finland | 0.841 | 0.861 | 0.879 | 0.901 | 0.914 | 0.940 | 0.941 |
| 14. | Denmark | 0.874 | 0.882 | 0.890 | 0.898 | 0.913 | 0.932 | 0.941 |

| | | | | | | | | |
|-----|----------------------------|--------------|--------------|--------------|--------------|--------------|-------|--------------|
| 15. | United Kingdom | 0.845 | 0.854 | 0.863 | 0.883 | 0.921 | 0.948 | 0.939 |
| 16. | France | 0.853 | 0.869 | 0.881 | 0.903 | 0.921 | 0.932 | 0.938 |
| 17. | Austria | 0.843 | 0.858 | 0.871 | 0.894 | 0.914 | 0.933 | 0.936 |
| 18. | Italy | 0.842 | 0.858 | 0.866 | 0.889 | 0.907 | 0.921 | 0.934 |
| 19. | New Zealand | 0.848 | 0.854 | 0.868 | 0.875 | 0.905 | 0.924 | 0.933 |
| 20. | Germany | – | 0.861 | 0.869 | 0.888 | 0.913 | 0.927 | 0.930 |
| 21. | Spain | 0.837 | 0.854 | 0.868 | 0.886 | 0.904 | 0.918 | 0.928 |
| 22. | China Hong Kong | 0.761 | 0.800 | 0.827 | 0.862 | 0.882 | – | 0.916 |
| 23. | Israel | 0.795 | 0.819 | 0.840 | 0.858 | 0.880 | 0.909 | 0.915 |
| 24. | Greece | 0.835 | 0.850 | 0.864 | 0.872 | 0.876 | 0.895 | 0.912 |
| 25. | Singapore | 0.725 | 0.761 | 0.784 | 0.822 | 0.861 | – | 0.907 |

Levels of Human Development

0.801–1.00 = High Human Development
0.651–0.800 = Higher-Medium Human Development
0.500–0.650 = Lower-Medium Human Development
Less than 0.50 = Low Human Development

SOURCE: “Human Development Report, 2005”, United Nations Development Program.

VI. From the Perspective of Chinese Government

Modern industrial markets, such as United States, France, Germany etc., have corporate-governance mechanism, functioning legal codes, and consistent state regulation – all of which have been largely absent or inadequate in China. Even when battling chronic productivity problems in the state sector over the past 20 years, China’s leaders have glossed over this key distinction. They reasoned efficiency would improve across the whole system if only more market incentives were offered. Greater and greater freedoms were allowed, but often in the absence of appropriate rules (Couzin, 1999: 59).

As the Chinese government tries to maintain the image of an investor's paradise based on low production costs, the workers, increasingly backed by state media, labor rights groups and even the courts, are clamoring for an end to slave-like working conditions. As mentioned above, people have to work in these conditions, but do not like them (The Taipei Times, February 5th, 2005: 9).

As a matter of fact, from perspective of Chinese government, China has a very huge population and it is very necessary for companies to do investment and open new work areas and employment opportunities. By doing this, prosperity of the nation will increase and unemployment rate will decrease. This may be a good point to be considered in order to think this issue from optimistic point of view.

VII. Ethical Dilemma for Multinational Firms

From international firms’ perspective, a major ethical dilemma facing firms from democratic nations is whether they should do business in totalitarian countries, such as China, that routinely violate the human rights of their citizens. There are two sides in this issue.

Some argue that investing in totalitarian countries provides comfort to dictators and can help prop up repressive regimes that abuse basic human rights. For instance, Human Rights Watch, an organization that promotes the protection of basic human rights around the world, has argued that the progressive trade policies adopted by Western nations toward China have done little to deter human rights abuses. According to Human Rights Watch, the Chinese government stepped up its repression of political dissidents in 1996 after the Clinton administration removed human rights as a factor in determining China's trade status with the United States. Without investment by Western firms and the support of Western governments, many repressive regimes would collapse and be replaced by more democratically inclined governments, critics such as Human Rights Watch argue (Hill, 2005: 80).

On the other hand, it is known to all that the reason of why multinational firms go to China is the defects in its regulatory environment. In developed nations where these firms are from, the regulations and standards for product safety, work safety, and environmental protection are very strict and protected by the laws. In order to fulfill these requirements, these firms exert too much effort and expend too much financial sources. Such being the case, these companies go to the nations which do not require so strict limits and standards. That's why these firms increase both its profitability and efficiency. In the meanwhile, such companies are criticized because of their operations misusing the poor legal environment in China.

In brief, it is the responsibility of the firms to make their decision whether or not they will be transferring their own country's regulatory standards into China or other similar countries. The reason is that their operations are obviously unethical and they will be having more and more reactions from the conscious consumers and conscious competitors, if they continue to abuse the developing nations' domestic regulations.

VIII. Initial Actions to be Taken by the Multinational Firms

There are some actions to be taken by the multinational firms in order to both increasing their profits and doing their business ethically. They may seek the help of the International Labor Organization (ILO) which is a branch of the United Nations dealing with strengthening worker rights and improving working conditions (International Labor Organization, 2005).

Furthermore, another application would be enrolling the company with Social Accountability International (SAI) and set the SA8000 as a standard for ethical practices in the company. SAI is an organization that promotes human rights for workers around the world. The SA8000 standard is 'based on the ILO's standards, the United Nations Declaration of Human Rights and the Convention on the Rights of the Child. The SA8000 is widely accepted as the most viable and international ethical workplace management system available (Wikipedia, 2005).

Conclusion

Considering the abovementioned facts, it can be said that investing in China will probably bring a company high profits and sustainable power for competition. In today's global business environment, it is of vital significance for a firm to search and discover new potential markets, either for trading or manufacturing. As far as all rankings are concerned, China is the best investment alternative for companies looking for opportunities for growth and to produce with low costs in particular. However, this does not mean to make these decisions by violating and abusing major human rights and misuse of the poor regulations in certain countries, in this case in China.

Companies should act against what is mostly done and pursue the strategy of trying to improve the working conditions in this particular country. If these examples go on to increase, not only the working conditions begin to improve and widen throughout the country and also throughout the world, but also the investors and companies benefit and profit from the opportunities of China in compliance with the ethics rules. The last but not the least is that such kind of actions will not only encourage the foreign governments to revise inadequate legal regulations, but also will enable foreign countries to take initial steps for being more democratic nation.

REFERENCES

- CHINA LABOR WATCH, Do you believe that Chinese Labor Laws can protect labor rights, <http://www.chinalaborwatch.org/en/web/index.php> (February 19, 2006)
- COUNTRY WATCH, China: UNDP Human Development, <http://countrywatch.school.aol.com> (February 18, 2006)
- COUZIN, Odilon (Oct 7, 1999), "China: The People's Republic at 50: Little money, no benefits", *Far Eastern Economic Review*, pp. 59
- FOX, Jeremy B., Donohue, Joan M., Wu, Jinpei (2005), "Beyond the Image of Foreign Direct Investment in China: Where ethics meets public relations", *Journal of Business Ethics*, pp. 317-324
- GLOBAL BUSINESS POLICY COUNCIL, FDI Confidence Index, December 2005
- HILL, Charles W. L., Ethics in International Business, http://highered.mcgraw-hill.com/sites/dl/free/0072873957/121268/ethics_in_international_business.pdf (February 18, 2006)
- HILL, Charles W. L. (2005), *International Business: Competing in the Global Marketplace*, 5th edition, McGraw-Hill Irwin, New York
- MARKEL, Douglas C. (Nov/Dec 1994), "Finally, a national labor law", *The China Business Review*, pp. 46
- THE TAIPEI TIMES (FEB 5, 2005), "Poor working conditions plague Guangdong", pp. 9
- UNITED NATIONS DEVELOPMENT PROGRAM, Human Development Report, 2005
- WIKIPEDIA, International Labor Organization, http://en.wikipedia.org/wiki/International_Labour_Organization (February 19, 2005)
- WIKIPEDIA, SA8000, <http://en.wikipedia.org/wiki/SA8000> (February 19, 2005)
- YIN, Eden, Choi, Chong Ju (2005), "The Globalization Myth: The Case of China", *Management International Review*, pp. 103