ETHICAL GUIDELINES FOR THE REFORM OF STATE-OWNED ENTERPRISES IN CHINA

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1. RELEVANCE AND ASSUMPTIONS

State-owned enterprises ("SOEs") undoubtedly play a unique and pivotal role in the process of economic reform. They epitomize a large number of crucial issues affecting both the enterprises and the economic system as a whole: the independence and social obligations of economic organizations; social ownership; a level playing field for all types of companies; the role of government organs; and the relationship with international business. How these issues are dealt with will shape the economic and social future of China.

So far, however, economic and legal considerations have dominated discussions about the reform of SOEs. The ethical dimension of this highly complex problem is barely addressed explicitly, much less developed systematically and integrated in a broader analytical framework for companies in China. This serious lack of attention entails far-reaching consequences, i.e., the exclusion of any ethical considerations and their factual replacement by ethical arbitrariness, and greatly contrasts with the practice of SOEs where ethical problems abound.

In a 1996 colloquium in Beijing, I presented a proposal which

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attempts to introduce these kinds of ethical considerations by applying the framework of “a balanced concept of the firm.” Its relevance may lie in the following characteristics:

(1) The relationship between state-owned enterprises and their macro-context is close, yet differentiated. For fairness and economic efficiency, a strong institutional framework must guarantee a level playing field for all types of enterprises.

(2) SOEs are independent economic actors that enjoy freedom and, correspondingly, bear responsibility. This necessarily involves an ethical dimension that can be understood as the “depth dimension” of the freedom and responsibility of enterprises.

(3) Enterprises reflect the multi-purpose reality of society, which is not neatly divided into purely economic, political, and sociocultural spheres. Rather, these spheres partially overlap at the societal level and thus cannot be totally separated at the corporate level. Therefore, three partially overlapping realms of corporate responsibilities can be distinguished: economic, social, and environmental.

(4) A common ethical bottom line for all types of enterprises is necessary for both ethical and economic reasons.

(5) Given this common ethical ground, there is room for a wide range of possible variation within which the individual enterprise can strike its own balance of economic, social, and environmental responsibilities.

To point to the ethical dimension of the reform of SOEs and to characterize it by the key term “responsibility” is a first step of developing corporate ethics in China. Many questions regarding content and justification of responsibility, however, remain open. To some extent, the following sections will address these questions.

2. **Three Sets of “Ethical Resources” for Ethical Guidance in China**

In order to substantiate the meaning of corporate responsibili-

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2 Id. at 7.
ty in China, I propose to start from the present sociocultural situation of the country, which is determined by a twenty-five hundred-year legacy of Confucianism, a fifty-year history of Socialist regime, and, due to China’s “Open Door” policy since 1978, a multitude of international, Western, and non-Western, influences. Accordingly, I will draw on the following: (1) Confucian ethics as currently understood in a fairly comprehensive and modernized way; (2) Socialist ethics as identified by the recent Resolutions of the Communist Party of China (“CPC”) Central Committee; and (3) the “Goal-Rights-Approach” that reconciles deontological and consequentialist traditions in the non-Chinese ethics discussion.

2.1. Confucian Ethics in a Comprehensive and Modernized Sense

As the history of Confucianism shows, many traditions and interpretations of Confucian ethics exist, some of which are quite controversial. For instance, Max Weber held that Confucianism as a religion in China did not provide any help towards modernization (such as the rise of capitalism), but obstructed the rise of the instrumental rationality necessary for modern economic and social development. On the other hand, given the economic successes in Taiwan, South Korea, Hong Kong, and Singapore, Confucian ethics is often portrayed as the spiritual source and resource of these developments. Because there is no room to address these issues in this article, I only refer to Antonio Cua’s fundamental discussion of Confucian Ethics and adopt Chung-ying Cheng’s view that Confucian ethics should be transformed and modernized and then used creatively and productively. Cheng identifies seven elements that constitute the internal factors of the economic development in Taiwan and other East Asian societies. These elements are the following:

(1) Facing the hardship of survival, Chinese people tend to have a strong consciousness of “misgivings” or “profound care”

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4 See generally CHUNG-YING CHENG, TOTALITY AND MUTUALITY: CONFUCIAN ETHICS AND ECONOMIC DEVELOPMENT (Faculty of the Chinese Inst. of Econ. Studies ed., 1996).
5 These factors should be understood as closely connected and related to the external factors of international business and Western ideas and culture.
6 See CHENG, supra note 4, at 37-43.
(yu-fan yi-shih) that engenders the virtues of patience, toleration, and seeking harmony, and promotes a spirit of self-reliance and perseverance.

(2) The need for adaptation to a changing environment brings about a general sense of flexibility among common people and a sense of creativity among Chinese intellectuals.

(3) The Confucian emphasis on education strongly motivates Chinese people to learn from others and absorb Western knowledge and Western values.

(4) Through this learning process, all Confucian values receive a new valuation according to their potential contribution toward maintaining individual integrity and social harmony or national coherence: hsing (faithfulness), li (propriety), cheng (sincerity), ching (respect), chung (loyalty), hsiao (filial piety); also the less dominant virtues of ch’ien (thriftiness), lao (hard-working), and ching (arduousness).

(5) The conspicuous virtues of jen (benevolence) and yi (righteousness) are given universal and modern meanings, and interpreted as policy-generating and decision-supporting virtues that provide the moral foundation to economic institutions and regulations. Therefore, governmental policies and managerial decisions should be guided by jen, understood as unselfishness and care for the people, and, yi as fair play and fairness or reasonableness.

(6) The virtue of zhi (wisdom) obviously matters to modernization, not only with its moral dimension, but also with its cognitive dimension, particularly for strategic and tactical planning.

(7) A highly significant element contributing to economic development is the popular pragmatism of profit-seeking among the general public. How does this relate to Confucian ethics? Confucius observes that as a matter of fact, the small man seeks profit and the superior man seeks rightness, and he would like to see everyone become a superior man. But he does not deny profit-seeking as either base or undesirable, provided that the right means to seek profit are used and priority is always given to the public good (kung-li). Although Confucius stresses the fair distribution of wealth, Mencius and The Great Learning mention the importance of creating wealth in order to make people well-provided for—an aspect of Confucian ethics that is often mistakenly denied and insufficiently recognized. Thus both the
“small men” and the “superior men” have their roles to play in the process of economic development.

To summarize Cua, Confucian ethics is an ethics of virtue. It aims for a well-ordered society based on good government that is responsive to the needs of the people, to issues of wise management of natural resources, and to just distribution of burdens and benefits. Guided by the ethical ideal of a good human life as a whole (tao), Confucian ethics stresses character formation or personal cultivation of virtues (te): first the basic, interdependent virtues of jen (love and care for one’s fellows), li (a set of rules of proper conduct), and yi (reasoned judgment concerning the right thing to do); then the dependent virtues of filiality, respectfulness, trustworthiness, and others.

2.2. Socialist Ethics According to the Resolutions of the CPC Central Committee

On October 10, 1996, the CPC Central Committee (“Committee”) adopted Resolutions “Regarding Important Questions on Promoting Socialist Ethical and Cultural Progress” (“Resolutions”) to provide guidance for “building socialism with Chinese characteristics” from 1996 to 2010. What is particularly striking about the Resolutions is the Committee’s vigor and directness in emphasizing the crucial role of ethical and cultural progress. After almost twenty years of reform and opening-up to the world,

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7 See Cua, supra note 3.
8 Resolutions of the CPC Central Committee Regarding Important Questions on Promoting Socialist Ethical and Cultural Progress, BEIJING REVIEW 20, Nov. 4-10, 1996 [hereinafter Resolutions]

The Sixth Plenary Session of the 14th CPC Central Committee, in accordance with the requirements of the Ninth Five-Year Plan for the National Economic and Social Development (1996-2000) and the Long-Term Objectives to the Year 2010, analyzed the situation facing the promotion of socialist ethical and cultural progress, and summarized experiences and lessons. . . . [T]he plenum mainly discussed questions in the field of ideology, ethics and cultural development, and made the [] resolutions.

Id. at 20.
9 Id. at 20.
10 See id. at 20 (stating that promoting ethical and cultural progress “has already become a matter of utmost importance that has drawn the extremely close attention of the whole Party and the people of all nationalities throughout the country”).
it seems necessary to counter-balance the heavy stress on material progress, given the fact that "the standard of moral conduct has been lowered in some spheres" and lists existing problems such as "worshipping money," "pornography, . . . drug abuse[,] . . . production of shoddy and fake goods[,] . . . fraud . . . [and] corruption." Although already stated in 1978, the strategic principle of placing equal emphasis on material progress and ethical and cultural progress has now become even more important.

The Committee calls for the promotion of "socialist ethical and cultural progress" to "form the socialist concept of justice and interests that places the interests of the state and the people above all and fully respects the legitimate personal interests of the citizens, and form norms for a healthy and orderly economic and social life." The Committee also underscores the importance of opening up to the outside world as an opportunity "to absorb and learn from advanced sciences and technologies, management expertise and all other useful knowledge and cultures for the promotion of ethical and cultural progress."

After discussing the paramount importance of ethical and cultural progress at this point in China’s history, the Resolutions then turn to the question as to what contents of norms and values should guide this progress. In this regard, two sections are especially relevant. Section 4 recalls the official CPC doctrine that forms the general guiding ideology and the overall requirements of promoting ethical and cultural progress. In particular, the Resolutions state that "the promotion of socialist ethical and cultural progress must take as its guides Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping’s theory of building socialism with Chinese characteristics."

Section 11 is more explicit and gives an extensive list of values and norms of socialist ethics, including: "service to the people as

11 Id. at 22.
12 Id.
13 Id.
14 See id. at 20.
15 Id.
16 Id.
17 Id.
18 Id. at 23.
its nucleus, collectivism as the principle, and love for the motherland, the people, labour, science and socialism as the basic requirements." The Committee further states that "education in social moral standards, professional ethics and family virtues should be carried out so as to form in all aspects of society a relationship among people that is characterized by unity and mutual help, equality and affection and common progress."

The Resolutions emphasize family virtues, define the role of the State in economic activities, and give high priority "to promoting progress in professional ethics, and rectifying unhealthy tendencies in all professions." Furthermore, the Resolutions conclude that "[a]ll trades and professions . . . must . . . offer education to their employees on professional responsibilities, ethics and discipline, strengthen job training, standardize professionalism, and create new work standards in their respective trades" whereas "[t]hose who violate professional ethics should be criticized and educated."

Looking at the document as a whole, it seems fair to say that the Committee makes a compelling case for the need for ethical progress while remaining very general and rather vague in providing ethical guidance. This lack of precision and concreteness surprisingly contrasts with the almost Confucian insistence of the Resolutions that the promotion of ethical and cultural progress should be of high practical relevance. For example, Section 20 states that "[a]ll activities involving promotion of ethical and cultural progress must be closely related with solutions to the practical problems that people are generally concerned about, and with the promotion of economic development and social progress."

2.3. "Goal-Rights-Approach" as a Normative-Ethical Framework

A Western ethics discussion might offer a third "ethical resource" to cope with the ethical challenges regarding the reform of state-owned enterprises. Instead of choosing between either a

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19 Id. at 25.
20 Id.
21 Id. at 26.
22 Id. at 29.
23 Id. at 31.
24 Id. at 29.
deontological approach (such as Kantian ethics) or a consequentialist approach (such as Utilitarianism), a proposed third approach better takes into account the complexities of moral life. Amartya Sen developed this “goal-rights” approach, which Georges Enderle further discusses. This approach aims at integrating the two seemingly opposing perspectives because both the deontological and consequentialist approaches contain concepts of irreplaceable value. The deontological view insists that the dignity of human beings should be recognized as intrinsically important and should never be used or manipulated as a mere means to achieve other ends. The consequentialist view requires that the outcome of human action and institutional behavior be considered and those goals which improve their outcome be identified and pursued.

More specifically, the respect for human dignity is commonly expressed in the Western tradition by the “language of rights,” which includes three sets of rights: civil and political, economic and social, and cultural. With regard to business and corporate ethics, of particular interest are “economic rights,” such as production-related rights (the rights to work, property, and entrepreneurial initiative) and consumption-related rights (the rights to subsistence and welfare). Despite the historic significance of various international declarations of human rights in the last fifty years, human rights are not unquestionably recognized all over the world. Not only economic rights, but also the universal validity itself of human rights is not infrequently put into question. Therefore, it appears to be necessary to pay closer attention to what the philosophy of human rights really means and to distinguish its content from the “language” which expresses it. Consequently, a clearly limited list of human rights should be established, and corresponding duties and responsibilities should be emphasized. The contents of human rights should be unambiguously determined and distinguished from the various ways they can be justified, be it from an individualistic or collectivistic, philosophical or religious point of view. Given these qualifications, it seems that a wide international and intercultural consensus about “the core issue” of human rights is feasible, even if it is

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26 See id. at 55.
27 See id.
expressed in a “language” different from the common “human rights language.” The indispensible “core issue” lies in the fundamental anthropological assumption that human beings necessarily need a basic endowment of capabilities in order to live and act decently in society.

As for the specification of the consequentialist view, it is imperative to determine common goals insofar as collective action is required. This is obviously the case for each country that needs a broadly accepted national identity for survival and development. It is also required for undertaking collective action at the international level and for each organization or enterprise that wants to be successful. Moreover, at the level of individual agents, the cooperation of groups demands a fairly clear understanding of their common objectives. In sum, the discussion of goals is indispensible whenever collective action is inescapable or desirable, and involves a normative-ethical dimension. It renders the manipulation of social relations more difficult, strengthens motivation and discipline, and improves the flexible and efficient allocation of means.

Sen proposes to integrate these two, deontological and consequentialist, perspectives into a “goal-rights” approach. Although this approach certainly needs further development, it is still one of the few contemporary attempts to overcome the traditional division between these opposing schools and sets a number of crucial benchmarks in the ethics discussion.

3. ETHICAL ORIENTATION FOR THE REFORM OF STATE-OWNED ENTERPRISES

The discussions in Sections 1 and 2 now allow some tentative conclusions to establish a number of ethical guidelines for the reform of SOEs, thereby using the Caux Roundtable Principles for Business Conduct (“Caux Principles”) as a heuristic device. This undertaking is fairly daring, given the multiple uncertainties involved in the transition from a planned economy to a market economy and the intended transformation of the SOEs from primarily “social” to primarily “economic” organizations. In order to reduce these uncertainties, the building and enforcement of an unambiguous and comprehensive legal framework is of

\[\text{28 See id. at 55-58.}\]
paramount importance. Such a legal framework does not suffice, however, because it is itself inspired and supported by a certain moral philosophy and practice, and cannot fully determine business conduct, leaving a certain discretionary freedom for ethical decision making.

Similar to the Caux Principles, three levels of ethical “input” can be distinguished: basic ethical ideals, general principles that help to clarify the spirit of these ideals, and more specific ethical guidelines that represent a practical way to apply the ideals.

3.1. Individual Integrity and Social Harmony as Two Basic Ethical Ideals

By comparing the three sets of “ethical resources” in Section 2, one can identify two basic ethical ideals that are involved in each of these sets, yet weighed somewhat differently: individual integrity and social harmony. Individual integrity can be expressed by the Confucian ethical ideal of a good human life as a whole or by the more Western concept of “human dignity” that includes, in one “language” or another, the content of a limited set of human rights. It is also contained, though significantly less articulated, in what the CPC Resolutions call “the legitimate personal interests of the citizens.” As for social harmony, the Confucian ethics of virtue aim at a well-ordered society based on good government. Socialist ethics places the interests of the State and the people above all and declares the “service to the people as its nucleus, collectivism as the principle, and love for the motherland, the people... as the basic requirements.” In the goal-rights-approach, social harmony is what John Rawls calls a “well-ordered society” based on “an overlapping consensus of reasonable comprehensive doctrines.” Interestingly, the two basic ethical ideals of the Caux Principles come close to social harmony and individual integrity. The Caux Principles state: “The Japanese concept of kyosei means living and working together for the common good [and]... ‘[h]uman dignity’ refers

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30 Resolutions, supra note 8, at 3.
31 See generally THE ESSENTIAL CONFUCIUS, supra note 28.
32 Resolutions, supra note 8, at 25.
to the sacredness or value of each person as an end, not simply as a means to the fulfillment of other's purposes or even majority prescription."

Obviously, these two basic ethical ideals must be placed in the context of modern societies at the national and international levels. Thus they are challenged by, and must stand the test of, ever more functionally differentiated and pluralistic societies. The wholeness of the human person and the harmony in society are inescapably exposed to and must confront these problems. Therefore, both extreme views are not acceptable. The absolute separation of different functional spheres (economic, political, and sociocultural) and the roles of individuals and institutions would lead to the break-up of the unity of individuals and societies. The close entanglement of these spheres, roles, and institutions would seriously hamper the efficiency of modern societies and render the decentralization of power impossible.

Related to the economy and to business, the two basic ethical ideals involve the ethical core values of prosperity, justice, and community. They mean the efficient creation and fair distribution of wealth, in which all members of the community should be included and take part. As discussed above, the comprehensive and modernized understanding of Confucian ethics particularly stresses both prosperity and justice, which is also the core issue of Rawls's theory of justice. With regard to community, socialist ethics appears to be more articulated than the other two sets of "ethical resources": Confucian ethics and Western ethics as a "goal-rights approach."

3.2. General Principles: The Responsibilities of Economic Organizations

What is proposed above in general terms applies more specifically to economic organizations. Individual integrity and social harmony, as well as prosperity, justice, and community, are to be translated to and substantiated at the corporate level. This

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35 Goodpaster also emphasizes these core values in his interpretation of the Caux Principles. See K.E. Goodpaster et al., The Caux Round Table Principles for Business: Presentation and Discussion, in INTERNATIONAL BUSINESS ETHICS: CHALLENGES AND APPROACHES (Georges Enderle ed. forthcoming).
means that discussing and defining the role and objectives of the economic organization must avoid the extreme views of being either a highly entangled socio-political-economic organization or a purely economic one. Accordingly, the CPC Resolutions require "to strictly prevent the rules on commodity exchange in economic activities from being introduced into the political life of the Party, the political activities of government departments and institutions." On the other hand, the slogan "the business of business is business" should not govern either. Furthermore, the economic organization is not only an efficient device of creating wealth, but includes a distributional and a communitarian dimension as well, which are interconnected with the productive dimension.

This understanding lays the foundation for "the balanced concept of the firm" that distinguishes economic, social, and environmental responsibilities. The Caux Principles also advocate the stakeholder approach in Principle I, which states: "The value of a business to society is the wealth and employment it creates and the marketable products and services it provides to consumers at a reasonable price commensurate with quality." To play this role, a business must maintain its own economic health and viability. The survival of the business, however, is not an end in itself. "Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created."

A number of "General Principles" further characterize the Caux Principles:

a. to contribute, as responsible citizens, to the economic and social development of the communities in which corporations operate;

b. to respect the rules of fair competition;

36 Resolutions, supra note 8, at 11.

37 Although not literally stated, this slogan is akin to what Milton Friedman contends in his famous article. See generally Milton Friedman, The Social Responsibility of Business Is to Increase Its Profits, N.Y. TIMES MAG., Sept. 13, 1970 (arguing that the purpose of business is to maximize shareholder value).

38 See discussion supra Section 1.

39 Caux Principles, supra note 33.

40 Id.
c. to avoid illicit operations such as bribery, money laundering, and other corrupt practices;
d. to go beyond the letter of law and build a spirit of trust in all business activities;
e. to support multilateral trade and the international agreements regulating it; and
f. to take a proactive stand in promoting sustainable (ecological) development.\textsuperscript{41}

These principles can be grouped as relating to economic responsibility (a), social responsibility (a, b, c, d, e), and environmental responsibility (f). Although primarily designed for multinational corporations, they can provide guidance to SOEs as well. An especially important feature of these General Principles is the implication that free markets need well-designed institutions and clearly established rules that must be actively supported by corporations and enterprises. As mentioned previously, such a support is provided by the Confucian ethics of virtue, particularly by the basic virtues of jen (unselfishness and care for the people), yi (fairness or reasonableness), and li (a set of rules of proper conduct). Moreover, the virtue of zhi (wisdom) is highly relevant to environmental responsibility. Moreover, the Resolutions also call for forming “norms for a healthy and orderly economic and social life.”\textsuperscript{42}

3.3. Ethical Guidelines for the Reform of State-Owned Enterprises

It would be unfair and unrealistic to demand radical reforms from the SOEs without radically changing the macro-context in which they operate. As long as the various types of enterprises in China (SOEs, urban collective enterprises, township and village enterprises, privately-owned firms, joint-ventures, foreign-owned firms, and others) are subject to considerably different legal and regulatory treatment in terms of both publicly stated and actually demanded requirements, the markets cannot produce the intended efficient and fair outcomes. In addition, major social obligations, honored until now by SOEs, reflect important needs of the people. If SOEs can no longer meet these needs, other govern-

\textsuperscript{41} See id.
\textsuperscript{42} Resolutions, supra note 8, at 22.
mental and nongovermental institutions must be put in place to bear these responsibilities.

Therefore, the following guidelines for the nation-wide SOE reform policy ("GN") are proposed:

**GN 1:** Creating and enforcing a level playing field of laws and regulations for all types of enterprises in China.

**GN 2:** Strengthening the economic and financial autonomy of SOEs in order to enable them to assume their corresponding responsibilities.

**GN 3:** Establishing fair and efficient systems of social security for retired, disabled, sick, and unemployed people.

These guidelines point to several necessary conditions for a successful reform of SOEs. They must, however, be supplemented by a number of guidelines ("GE") which directly concern the responsibilities of SOEs themselves. They can be grouped in three partially overlapping sets of economic, social, and environmental responsibilities.

Regarding the SOE as an economic organization:

**GE 1:** Enhancing considerably efficiency and productivity.

**GE 2:** Taking full financial responsibility for the management of the SOE, even at the risk of bankruptcy.

**GE 3:** Reducing the social obligations for surplus employment, social security, health care, housing, education, and other activities to the extent that these services are being provided by other, governmental and private, institutions.

**GE 4:** Competing with honesty and fairness.

Regarding managers and employees:

**GE 5:** Respecting the human dignity of every manager and employee.

**GE 6:** Being innovative in creating and preserving
productive and meaningful jobs.

GE 7: Clearly determining the roles and responsibilities of managers and employees, and establishing a fair and effective system of reporting and accountability.

GE 8: Setting and implementing reasonably high standards of a "work ethic" in terms of thriftiness (ch'ien), hard-working (lao), and arduousness (ching).

GE 9: Providing safe and healthy working conditions, and paying fair wages and salaries.

GE 10: Promoting professional ethics (related to yi and li).

GE 11: Separating the worklife of managers and employees from their private life.

Regarding other stakeholders:

GE 12: Serving the customers who directly purchase the SOEs products and services, and who acquire them through authorized channels.

GE 13: Honoring the trust of the SOEs owners and investors.

GE 14: Paying mutual respect to the suppliers.

Social and environmental responsibilities:

GE 15: Respecting the letter and spirit of laws and regulations (related to yi and li).

GE 16: Honoring the social obligations that remain in the realm of SOEs.

GE 17: Fostering both cultural heritage and innovation.

GE 18: Promoting sustainable business that "leaves the environment no worse off at the end of each accounting period than it was at the beginning of that accounting period."  

43 STEPHAN SCHMIDHEINY & FEDERICO ZORRAQUÍN, FINANCING CHANGE 17 (1996) (quoting the definition of "sustainable business" as proposed by the United Nations Conference on Trade and Development).
In conclusion, these guidelines attempt to indicate an ethical direction for the reform of SOEs. Admittedly, they are incomplete and need a great deal of discussion and further specification (particularly GE 12-18). It is hoped, however, that they can contribute to the learning process in which managers, employees, SOE as organizations, and society as a whole must engage in order to pursue and achieve the successful reform of state-owned enterprises in China. In Analects 17:8, Confucius aptly expresses the importance of learning:

If you like humaneness but don’t like learning, it degenerates into folly. If you like knowledge but don’t like learning, it degenerates into looseness. If you like trust but don’t like learning, it degenerates into depredation. If you like honesty but don’t like learning, it degenerates into stricture. If you like bravery but don’t like learning, it degenerates into disorder. If you like strength but don’t like learning, it degenerates into wildness.\(^{44}\)

\(^{44}\) The Essential Confucius, supra note 28, at 45.

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