

# Confucian Implications on China's Financial Services Market<sup>1</sup>

Jessica Griner

*Zhejiang University*

Joshua Petersen

*Concordia University Irvine, U.S.A.*

This study seeks to investigate the market potential of China's burgeoning financial sector. The researcher examines how traditional Chinese and Confucian cultural norms and traits influence the Chinese investor while considering the rapid economic and cultural changes in China. Research has shown that although China's youth has taken advantage of China's unprecedented growth and become appreciably more business savvy than previous generations, today's generation of Chinese young adults still adhere to the major tenets of traditional Chinese culture and are heavily influenced by the pillars of Confucianism that guide their behavior and attitudes towards many aspects of life.

Keywords: Confucianism, filial piety, Jeffersonianism, Mao ZeDong, One Child Policy, Leninism, Protestant asceticism, Max Weber and Thomas Jefferson.

## INTRODUCTION

This study primarily seeks to identify the implications of the Confucian worldview for contemporary young Chinese people's attitudes and behaviors towards financial planning in China's modern economy. This study posits that further scrutiny of Confucianism and an understanding of upwardly mobile Chinese young adults' financial goals are necessary components. Market potential will also be measured with consideration of the geopolitical climate of contemporary China, accounting for the One Child Policy.

### China – An Overview

The banking sector dominates China's financial system (Barth, Tatom, & Yago, 2009). Over 1.7 million Chinese in China's banking industry and personal savings of US\$ 1.3 trillion provide bankers, investors, and analysts with reasons to explore opportunities in the country's financial sector (Yang, & Kuhn, 2012). Since the late 1970s, China's financial service industry has transformed in less than 30 years after the government initiated economic reforms. This transformation reflects the shift from a centrally-organized to a market-oriented industry (China Knowledge Press, 2005). Technological advancements

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1 Requests for reprints should be sent to Jessica Griner, E-mail: jessicamelanieg@gmail.com; Joshua Petersen, Email: joshuapr84@gmail.com.

have been influential in this transformation. According to China Knowledge Press (2005), “Physical and manual clearing in the securities depository and clearing system have now been replaced with a dematerialized and centralized electronic system.” (p. 5). After China’s accession to the World Trade Organization (WTO) in 2001, the country’s financial sector experienced increased liberalization, which brought some benefits such as the rise in foreign direct investments and reserves.

Moreover, in recent years, China’s financial services market has undergone unprecedented changes as many banks and insurance firms have launched their IPOs in the local or global market. This is a part of China’s efforts to fulfill its commitment to the WTO through opening up to foreign competition. Even in the midst of financial scandals such as the debacle at China Aviation Oil (CAO), the country’s financial services industry has continued to witness mergers and acquisitions. CAO’s main business involved procuring jet fuel for airports in China. The company initially engaged in futures and swap-trading to enhance jet fuel procurement. Later, it began speculative trading without incorporating it properly in the company’s risk management and oversight policies. This led to failures in valuing contracts and inaccurate financial reporting. According to Deloitte (2006), “In the context of fair value accounting, the errors in the valuation of the open position led to erroneous financial statements. There were several roll-overs of loss generating positions, whereby options on bigger volumes were sold to generate sufficient cash to settle the losses on an existing position.” ([www.deloitte.com](http://www.deloitte.com)). Examples of recent merger and acquisition proposals include Deutsche Bank’s move to buy a 10% stake in the Bank of China, as well as the proposed partnership between China’s Dragon Fund Management Company and UBS, a Swiss-based bank (Yang, & Kuhn, 2012). Chinese banks have also made considerable progress in reducing the quantity of non-performing loans, as well as enhancing their efficiency (Barth et al., 2009).

The Chinese government has also made an effort to improve its capital market. China’s stock market grew to rank third behind Tokyo and Hong Kong. According to Barth et al. (2009), “In 2007, China’s stock market was ranked the world’s largest emerging capital market and third-largest capital market after Tokyo and Hong Kong.” (p.28). The evolution of the banking system has led to service diversification, banking autonomy, and monetary policy independence. Today, customers can access personal, private, corporate, and institutional banking services. The key players in the Chinese banking industry are the “Big Four” (China Construction Bank, People’s Bank of China, Industrial and Commercial Bank of China, and Agricultural Bank of China, Policy banks, Joint-Stock banks, and Foreign banks) (Yang, & Kuhn, 2012). Despite the substantial progress in the provision of Chinese financial services, the industry still encounters challenges due to large non-performing assets, inadequate commercial orientation of state-owned banks, and lack of efficient, indirect monetary instruments (China Knowledge Press, 2005).

Like the banking industry, China’s insurance sector has undergone changes. At the founding of the republic, foreign firms controlled the insurance market. However, after the formation of the PRC, the Chinese government drove out all foreign insurers and merged all local insurers to form the People’s Insurance Company of China (Yang & Kuhn, 2012). The government stopped domestic insurance operations because it perceived commercial insurance as unnecessary, given that it sought to provide national social security (Yang & Kuhn, 2012). In the late 1970s, a competitive insurance market began taking shape in light

of economic reforms that led to the re-emergence of the insurance industry in the country.

After China's ascension to the WTO, its insurance industry became the most open in the financial sector of the country (China Knowledge Press, 2005). The Chinese stock market also witnessed reforms after the economic downturn hit. According to Barth et. al. (2009), "The year 2005 saw the implementation of the reform of non-tradable shares, which aimed to unify the interests of tradable and non-tradable shareholders." (p.550). Consequently, since 2006, China's stock market witnessed high demand, leading to an increase in trading accounts and volume. In 2007, the total capital obtained from stock and convertible bonds hit RMB 1.9 trillion, listed companies reached 1550 and overall market capitalization was RMB 32.7 trillion (Barth et. al., 2009). By 2008, China had recorded more than US \$1.5 trillion in its foreign currency reserves, surpassing other nations globally. The figure increased to US \$ 1.68 trillion by March 2008 (China Knowledge Press, 2005). The rapid increase in these reserves indicated the existence of a large quantity of speculative money as investors anticipated a continuous appreciation of China's currency relative to other dominant currencies, particularly the US dollar (Barth et. al., 2009).

The One Child Policy is a part of the efforts of the Chinese government to align population growth with its socio-economic development plans. Although the Chinese government had made progress in population control in the 1970s, it felt that there was still a need to regulate the country's demographic situation further (Cannon & Jenkins, 1990). This led to the introduction of the One Child Policy whose objectives included population quantity control, amelioration of the population quality, as well as adaptation of socio-economic and population development (Cannon & Jenkins, 1990). Several factors persuaded the government of the need of a population policy. According to Cannon and Jenkins (1990), these were "the cost of catering for a large and expanding population, the inbuilt momentum for rapid population growth arising from the baby-boom of the 1962-73 and various predictions regarding the optimum population over the next century" (p.117). In addition, the two-child policy of the earlier years appeared ineffective in addressing the population pressure that the country anticipated from the baby-boom (Cannon & Jenkins, 1990). The policy was incorporated into the Chinese Constitution, meaning that family planning received the legal support of the state. Thus, the belief was that the one-child policy would lower the demographic growth rate, as well as the population size.

The One Child policy has had implications on Chinese consumption trends. The single-child family structure has become the norm for Chinese urban families, leading to parents and their children showing respect for one another and developing an equal status. This gives children additional opportunities to contribute to family decisions. According to Xi, Sun, and Xiao (2006), "Recent changes in the structure of the Chinese family constitute the main reason why children are beginning to play the lead in determining household consumption." (p. 68). However, the authors note that this change has not been met with adequate, systematic financial training for Chinese children. The press has made an effort to publish books and introduce programs that foster financial awareness for youth and children (Xi et al., 2006). In addition, some schools have begun to use instructional materials with content on financial education and money management. However, most institutions are still unfamiliar with the provision of financial education (Durvasula, & Lysonski, 2010). These efforts remain unsystematic, thereby hindering widespread knowledge of financial matters among Chinese youth and children.

### Research Question

How do traditional Chinese and Confucian cultural norms and traits influence the Chinese investor in the face of the rapid economic and cultural changes in China?

### Definitions of Key Terms

**Confucianism:** An all-encompassing humanist philosophy that neither denies nor confirms the existence of heaven. According to Rainey (2010), “there is no priesthood, central leader, congregation, sacred texts, God or gods or other elements in Confucianism.” (p. 203). Confucianism is an ideology that seeks to replicate the harmony of heaven on earth by creating systemic order through social relationships.

**Filial piety:** The virtue of respect, reverence, and provision for one’s ancestors and elders. Filial piety is often defined as reverence for the elderly or one’s parents. According to Rainey (2010), “Filial piety means respect and reverence for one’s parents – this is then extended to one’s teachers and elders.” (p. 24).

**Jeffersonianism:** This term defines the doctrines and political ideas of Thomas Jefferson. He stressed a reduction in government influence/power, inalienable human rights, as well as, the benefits of a rural society and agricultural economy. According to Starr, “Jeffersonianism is the view that individuals pursuing their objectives freely, rather than institutional mechanisms, would best promote what was good for the country as a whole.” (p. 142).

**Mao Zedong:** A Chinese political philosopher and communist revolutionary (Rainey, 2010).

**One Child Policy:** The population control policy of the People’s Republic of China. According to Fong (2004), “The Chinese government after Mao Zedong saw the need to further reduce the birth rates in China and implement a one-child policy campaign.” (p.4). It restricts urban couples to only one child, allowing additional children in various cases, including twins, rural couples, ethnic minorities, and couples in that both parents are only-child themselves.

**Leninism:** Leninism relates to economic and political theories of Vladimir Lenin, as well as, other intellectuals who desire to advance Lenin’s work. According to Lane (1991), “Lenin called for the obliteration of all distinctions between workers and intellectuals.” (p. 46). Leninism expanded Marxist ideas, in addition to serving as a foundation for the advent of Soviet Communism.

**Protestant asceticism:** A lifestyle specific to Protestant Christianity distinguished by abstinence from certain worldly pleasures, with the goal being to secure a high station in the afterlife. According to Hillerbrand (2004), “When applied to religion, asceticism may be broadly defined as acts and attitudes of world-renunciation and self-discipline taken up for the sake of religious goals.” (p. 186).

**Max Weber:** German sociologist, who argues that religion, and more significantly, the code of each religion, is the motivating economic force behind modern economic conditions (Rainey, 2010).

**Thomas Jefferson:** He served as the third President of the United States. He previously served as an American ambassador to France (Rainey, 2010).

## BACKGROUND OF CHINA AND CONFUCIANISM

The Chinese pride themselves in being the inheritors of one of the oldest uninterrupted civilizations in the world. Confucianism is at the nexus of Chinese civilization. Confucianism is often erroneously misconstrued as a religion. This is a mistake because Confucianism merely passively acknowledges the existence of deities and the afterlife. At its heart, Confucianism asserts that heaven and deity are concepts too broad for mortal man to comprehend. It is, therefore, a philosophy that serves to facilitate the harmony of heaven on earth by creating systemic order through social relationships. Confucianism has influenced Chinese political and social systems with its emphasis on a hierarchical moral order (China Knowledge Press, 2005). Confucianism can be traced to Confucius who wrote several texts, including the Five Classics and Analects in which he sought to teach about the qualities of a gentleman. Confucianism became the Chinese state ideology during the Song Dynasty (960-1279) (Redding, 1993). Chinese scholars merged Confucian ideals with Daoist aspects to develop a holistic worldview and guidelines for civil and political conduct. At this time, Confucianism also had a significant influence on the political philosophies of Japanese and Korean societies.

The key tenets of Confucianism are propriety, righteousness, wisdom, and benevolence. These qualities are indispensable for exemplary conduct. The notion of righteousness implies behaving and living in accordance with moral principles instead of focusing on material gain and self-interest. Confucius teachings such as social consciousness, thriftiness, and moderation seek to promote self-regulation and control (Durvasula, & Lysonski, 2010). Confucianism also stresses education by advocating for continuous reflection and inquiry (Redding, 1993). The Confucian social relationship of most relevance to this study is that between parent and child, otherwise known as filial piety. The Confucian Classics defined acceptable social behaviour, especially the idea of filial piety. There was significant emphasis on people's social obligations in human relationships with parents, brothers, spouses, political, and religious leaders, and friends (Chan, Wong, & Leung, 2007). Moreover, Confucianism's principle of the five core relationships emphasizes the significance of harmonious interactions within and across organizations (Redding, 1993). Today, individualism and materialism are gradually replacing Confucian values of collectivism and righteousness due to unsustainable consumption (Chan et al., 2007). This implies that Western influence is slowly superseding the country's moral doctrine, triggering a culture of self-gratification (Chan et al., 2007).

More and more credence is now being given to the legitimacy of Confucianism as a pragmatic governing approach, which is congruent with current expectations of international behavior with regards to policy formation. This is because, at its heart, Confucianism seeks to promote a harmonious existence on this earth and is not exclusively a solution to one's destiny in the afterlife (Chang, 2011). It can, in this respect, be likened to American Jeffersonianism that stresses secular reason and rational thought above religious considerations in the formulation of domestic and international policy. The two ideologies work to enhance civil and international order (Chang, 2011). A widely-held equivocation fallacy argues that China's commitment to her ancient cultural heritage implies a degree of nationalistic reluctance to absorb contemporary customs from outside the Middle Kingdom. However, Confucianism is an all-embracing ideology, much like the Catholic nature of the

West's Christianity (Chang, 2011).

This study will investigate the influence of the Confucian doctrine of filial piety on China's youth and their attitudes and behaviors towards investing and financial planning. This study holds that, for many Chinese, Confucianism, particularly the doctrine of filial piety has served as an impetus for market growth in China's nascent financial sector.

## LITERATURE REVIEW

### Confucianism and Economic Development

Business scholars and economists took an interest in the link between economic performance and Confucianism as part of their research into the triggers of industrialization and economic development success in Asian nations (Vries, 2001). However, the debate about the positive and negative effects of Confucianism on economic development still continues. While some believe that Confucianism facilitates economic activity, others feel that it is detrimental or inconsequential. Eighteenth century intellectuals such as Voltaire and Leibniz examined the political and cultural system of China, supporting Confucianism as crucial to economic development (Yi, Lee, & Song, 2006). Their work enhanced awareness about Chinese culture among the Western public.

Max Weber wrote the first and most significant treatise "The religion of China: Confucianism and Taoism", which was published in early 20<sup>th</sup> century and examined the influence of Confucianism on economic development (Redding, 1993). Weber argues that Confucianism has a negative effect on modernization and economic growth. He posits that this is due to the incompatible characteristics of capitalism and Confucianism. The differences in religious views contribute to the antagonism between both ideologies (Redding, 1993). Western Protestantism perceives God as distant from the events in the world, meaning that people's lives are guided by rational behaviour and objective goals. The Protestant ethic also upholds values such as time management and diligence (Redding, 1993). From an East Asian perspective, divine presence influences and shapes reality (Pye, 2000). Max Weber established himself as one of founders of sociology with his work "The protestant ethic and spirit of capitalism" (Redding, 1993). Weber argues that, to understand social phenomena, sociologists must first explore the meanings and significance that people attribute to their individual actions. In his treatise, Weber argues that the code of each religion is the motivating force behind modern economic conditions. Weber looked to Protestantism to identify the psycho cultural impetus for the birth of capitalism (Redding, 1993). He also wanted to explain, what appeared to him, as the West's seemingly God-given aptitude at achieving economic success within the capitalistic system (Pye, 2000).

Weber and his methodologies are significant to this study. Max Weber relied heavily on historical records from different periods in ancient Chinese history to formulate his views on modern China. Weber held that social values are instrumental in the creation of social institutions (Vries, 2001). Essentially, Weber studied ancient social values to determine the motivation and thought behind the creation of modern social institutions. Consequently, his methodologies are somewhat unreliable. However, because Weber's authority in the field of sociology is so firmly established, his work on China is widely considered authoritative, even in the field of Sinology. Since Weber opined that China is incapable of developing

economically as the West has, due to Western “Protestant asceticism,” many others who have relied upon Weber’s studies have hence dismissed any possibility of market potential in China (Vries, 2001). Western scholars used Weber’s thesis to explain why China failed to industrialize during early 20<sup>th</sup> century. They attributed the 1997 Asian economic crisis to Confucian morals (Pye, 2000). However, Western scholars overlooked influence of dynastic institutions that opposed modernization. Since Weber’s thesis focused on pre-communist China, other researchers developed alternative reasons for China’s late modernization, including anti-Western sentiments and availability of manual labour (Vries, 2001).

Research into the connection between economic development and Confucianism re-emerged after World War II (Kim, 1999). During this time, the economies of East Asia witnessed significant development as evident in rapid industrialization and economic growth. This made researchers suggest the existence of a form of economic organization or development model, which they termed Confucian capitalism (Kim, 1999). They attributed economic growth of East Asian nations to certain Confucian values such as respect for hierarchy, thrift, and perseverance. Seong (2003) observes that Korean intellectuals perceive Confucian ideology as responsible for the economic growth of East Asian nations. These intellectuals also believe that Asian nations that conform to Confucianism are culturally superior. Seong has also attributed unfavourable socio-economic outcomes in the Asian crisis to Confucian-oriented practices of corruption and nepotism.

Perhaps, scholars are unlikely to agree on the association between Confucianism and economic performance. However, what emerges is that researchers perceive the coincidence of economic development or crisis in East Asia and Confucianism as evidence of a causal link between both variables. While Confucianism may not be adequate to explain the economic success of Asian nations, it is likely to have a distinctive impact on company performance (Friedman, Chi & Liu, 2006). Friedman et al. posit that cultural values affect attitudes and behaviour within organizations, leading to positive or negative business outcomes.

#### Filial Piety in Confucianism

Filial piety is the central nucleus of Confucianism (Chang, 2011). It follows that filial piety is also the chief motivating factor that undergirds decision-making among the Chinese, especially in relation to financial planning, which is the focus of this research. Thus, it is fitting that this study discusses filial piety within the context of the Chinese financial services market.

Many in the West believe that a Confucian society is culturally ill-equipped to make use of capitalism as a system for generating wealth because “Protestant Christianity contributes to the diligent work ethic in Western societies” (Seok-Choon, Woo-Young, & Hye Suk, 2011, p. 171). It is the opinion of this study that the flaws do not lie within Confucianism, but with the interpretation of Confucianism, taking into consideration the developmental significance of time-honored merits and how they apply to the economic orientation of the Chinese. Critics who maintain that Confucianism has no in-built economic stimuli have failed to examine Confucianism in relation to other significant cultural tenets, such as work ethic and educational achievement, as well as how they are undergirded and motivated by filial piety (Seok-Choon et. al., 2011). Furthermore, they seriously underestimate the power

and ubiquity of the notion of filial piety in Chinese minds. Only when Confucianism is examined within this scope does one see the incredible driving force that is filial piety. Filial piety is often defined as the reverence for the elderly or one's parents (Seok-Choon et al., 2011). A deeper understanding will reveal that filial piety is more than a mere philosophical mechanism. It is an eternal and pious mandate providing a practical and seemingly attainable rejoinder to the eternal question of one's afterlife (Chang, 2011).

Confucianism treats death as the start of a person's eternal existence (Chang, 2011). Life, therefore, along with one's behavior and degree of adherence to the tenets of Confucianism (in this study, filial piety) enables one to return to a position of immortality. The living individuals hold their ancestors in high regard to allow the ancestors to continue enjoying this immortality. Care for one's elders and adoration for one's departed ancestors go hand in hand (Seok-Choon et al., 2011). Consequently, a blatant disregard for the elderly is not only damning but also heretical. To put this in perspective, it is the Western-Christian equivalent of a refutation of the divinity of Jesus Christ as the messianic savior and "the way, the truth, the life" (John 14:6 KJV).

Filial piety is the foundation of all good conduct and must be exemplified by tangible results (Chang, 2011). For example, good grades bring honor to the family and secure a prosperous future, both of which enhance the existence of late ancestors. The four factors of filial piety (self-sacrificing obedience, caring for parents, respecting parental intervention and upholding family honor) are significant to the Chinese. Consequently, autonomy is not considered crucial compared to academic outcomes (Hui, Sun, Chow, & Chu, 2011). Filial piety is the most significant cultural precept in Chinese culture (Chang, 2011). It is a significant motivating factor for many areas of life, from education to financial planning.

Bearing in mind the sacred, existential implications and psycho cultural significance of filial piety, given its central position among the tenets of Confucianism, filial piety appears to be a strong economic motivator (Hui et. al., 2011). The practice of filial piety is quantified through traditional rites such as coming of age ceremonies, weddings and funerals (Hui et. al., 2011). Such rites provide opportunities to quantify one's practice of filial piety. However, as China has progressed and aggressively pursued modernization, many of these traditional methods have lost their significance and are no longer viewed as satisfactory methods of practice. Representation is to be affirmed throughout one's entire biological existence through internal reflection on whether or not one's life, as a continuation of his or her parents' lives, pleases one's ancestors (Seok-Choon, 2011). The rapid pace with which modernization has occurred in China has rendered the criteria through which one can satisfy this end somewhat nebulous, leaving many to conclude that socioeconomic achievement is the only guaranteed method of remembering one's ancestors (Seok-Choon, 2011). A good education is paramount to advancing socioeconomically. Improving the quality of one's life also enhances the eternal existence of one's ancestors. This is of utmost significance because the contrary is also believed to be true: a dwindling standard of living results in the diminution of ancestral existence (Seok-Choon, 2011). Filial piety is hence a tremendous economic motivator.

#### Confucianism in China

Confucianism is as central to China as Jeffersonian democracy is to the United States. Since



most of the world automatically associates China with Confucianism, despite the ideology having been exported throughout the world for some time, Confucianism is experiencing a rebirth (Louie, 2011). Confucianism is enjoying this renaissance because of China's remarkable economic rise and its surprisingly flexible ideology. The Beijing government has taken notice of the world's interest in China's hallmark ideological export. Consequently, it uses Confucianism to boast about China's soft power. This is akin to Germany's Goethe Institute or Italy's Dante Alighieri (Louie, 2011). Confucianism suffered tremendously after the Communist takeover, with many significant tenets of the Confucian code removed and replaced with a new credence designed with an intentional bias to the state and Mao Zedong (Louie, 2011). The post-1949 bastardization of Confucianism was the only area of academic research into the topic permitted by the newly formed People's Republic of China (Louie, 2011). Thus, many scholars of ancient Confucianism fled to Taiwan and Hong Kong (Louie, 2011).

#### Population Pressures in China

China's large population poses significant challenges in the provision of elderly care. The Beijing government is aware of the problem. Since the mid 1980s, Beijing has implemented Family Support Agreements (FSAs), which are voluntary contracts between parents and children. The contracts delegate the duties of care to children (Chou, 2008). FSAs have enjoyed some success in rural China, and have begun to be implemented in China's larger cities. However, this is not yet a viable solution due to an immense demographic problem and has become something of a source of national shame (Zhan, Zhanlian, Zhiyu, & Xiaotian, 2011). Chinese families, unlike their Western counterparts, are currently struggling to manage cultural demands of elder care along with the usual financial, care and emotional implications (Zhan et al., 2011). Chinese society stigmatizes those who place their elders in institutional facilities. This stigma is a burden that results from the significance of filial piety. However, institutionalization seems to be inevitable due to China's enormous population and a difficult gerontological environment produced by Beijing's policies regarding population control. In this light, China's One Child policy has caused a decrease in the number of working adult children who are available and able to care for their parents.

#### Financial Behaviors of the Chinese Population

The challenge of providing care to the aging Chinese population has triggered a saving culture in the country. An examination of the Chinese economy reveals that China as a whole saves approximately 45-50% of GDP (Wolf, 2011). This figure reflects the combined savings rates of state-owned enterprises, private enterprises, households, townships and all levels of Chinese government (Wolf, 2011). This is unusual in an emerging economy and runs contrary to traditional theories regarding emerging markets. Traditionally, it is held that poor countries are unable to save or invest because they must immediately consume what is produced, placing them in a position of financial reliance on wealthier, industrialized nations in the form of inward-bound investments and transfers. However, the extensive influence of filial piety on the Chinese and lack of an adequate social security system along with the demographic imbalance have created a society that scrimps and

saves for the elderly (Wolf, 2011). Implementation of a viable social security system is a source of significant political debate. As a result, the Chinese save an incredible amount of money for the care of their elders.

Contrary to popular belief, China's "little emperors," children born and doted on during China's period of newfound economic success, are still traditional at heart (Madden, 2005). A superficial glance at today's Chinese youth would lead a person to believe that they are no different from those in America or Europe. Chinese college students can be observed wearing Levi's jeans, shopping at H&M and chatting with friends on their iPhones. Chinese college students, a product of three decades of economic reform, are the most globalized segment of the population the Middle Kingdom has ever seen. That said, one must also realize that before they are products of market reform and a newfound embracing of capitalism, they are Chinese and a product of a civilization steeped in over five millennia of tradition.

Many of China's youth enjoy the riches of capitalism, thanks to market reforms that the Chinese government implemented since 1978 (Mengchun, 2010). In addition, they have the liberty to make choices about their lives. Collectively, China's youth between the ages of 8 and 24 have an annual gross income of \$40 billion USD (Madden, 2005). However, many of China's youth are uncomfortable with this amount of freedom, constantly finding themselves in a struggle to reconcile their modern wants and goals with the demands of their rich cultural heritage. Chinese youth seek to enjoy their new affluence but in a context that is socially acceptable to their culture (Madden, 2005). Filial piety is crucial to Chinese youth, as well as the desire to ascend the socioeconomic ladder by advancing their education. Fashionable clothes and other forms of cultural capital do not equate to being "cool"; rather, being a good student with the prospect of a bright future is what makes one "the cool kid" in China (Madden, 2005).

The Chinese save a considerable quantity of money as part of financial planning for themselves and their parents while struggling to meet the demands of their rapidly changing world (Mengchun, 2010). As steeped in tradition as the Chinese are, they are also a forward looking people as evidenced by their extraordinarily high savings rate. Attaining a secure future is of utmost importance to them. This study argues that financial services are indispensable to achieving this goal. It is erroneous to perceive the frugal nature of the Chinese as evidence of risk evasiveness. It is an opportunity to provide them with financial services that will encourage their saving culture. According to Barth et. al (2009), "Interest-bearing 'savings deposits' are the most significant form of deposits in China, providing a good source for bank loans and other forms of investment." (p.15). Thus, banks can use the Chinese population's saving propensity to expand credit and investment products.

#### Chinese Financial Services Market

As previously mentioned, China has a savings rate of 45-50% of GDP (Wolf, 2011). Similarly, savings rates of Chinese households have been high during the reform period (Barth et. al., 2009). This saving propensity has been the outcome of economic growth, high increments in personal income, as well as limited investment opportunities (China Knowledge Press, 2005). China's economic policies are oriented to cater to the demands of her people to provide for their futures. Years of stable economic growth have given the

Chinese new monetary riches. However, an unrefined and ill-equipped financial services sector has given them little opportunity, or for that matter, awareness of doing anything other than traditional savings accounts with their increasing coffers. China's financial services market is still in its nascent stages. Presently, personal or consumer investments have been parked in less aggressive products such as fixed money market bonds, notes and short-term financing products (Mengchun, 2010). The variety of products available to Chinese consumers is expanding. Chinese banks and financial service institutions are working towards innovation in their product offerings. Chinese banks are now utilizing swap-trades and stock indexes to expand investment fields for their customers (Chang, 2011).

Chinese financial institutions have begun to segment their financial markets rather than approach the market as one entity (Madden, 2005). That is to say, they are tailoring financial instruments specifically to each segment of the market's needs. Additionally, Chinese financial institutions are moving away from their traditional store-front approach (Chang, 2011). Previously, going to the actual place of business was the only way for the Chinese consumer to interact with their financial institution. Services such as online banking and mobile phone applications were reserved for VIP clientele (Chang, 2011). This limited accessibility was justified because financial institutions believed that only the savviest of their customers would require such services. However, as their accountholder's balances swelled, so did the demand for more accessibility and interaction with their financial institution.

The Chinese financial services market is not devoid of challenges. The banking system is large, though, underdeveloped due to domination by the four state-owned banks. This is despite the emergence of several domestic and foreign banks (Yang, & Kuhn, 2012). Additionally, Chinese financial institutions have difficulty in educating their customer base (Durvasula, & Lysonski, 2010). Chinese people are extremely conservative when it comes to investing not because they are risk averse, but because they are simply unaware of what investing can do for them. In China, investment is a relatively new concept. In addition, the financial services industry is still in its genesis (Mengchun, 2010).

Moreover, the industry needs to undertake reforms in interest rates to boost the capabilities of banks to compete for customers with asset/wealth management companies. Currently, the People's Bank of China regulates interest rates tightly while state-banking institutions lack a proportionate role in allocating capital (Heilmann, 2005). Deregulation of interest rates will reduce the rapid growth in deposits, in speculative products (China Knowledge Press, 2005). Additionally, deregulation will increase accessibility to capital while allowing market forces to determine interest rates, thereby, driving efficiency. Deregulation considerations do not relate solely to interest rates, but to the entire industry. According to Barth et. al. (2009), "There is also a debate on whether China should have a super-regulatory agency for the entire financial services sector." (549). Ultimately, deregulation would assist in preparing the country's financial sector for capital account reforms (China Knowledge Press, 2005). China has lagged in capital account reform, despite its financial liberalization. During the past ten years, Chinese banks' foreign assets have reduced from 5% (prior to ascension to the WTO) to 2% (Yang, & Kuhn, 2012). Similarly, the stock market has had a limited and ineffective role in allocating resources in the economy (Barth et. al., 2009). Consequently, its scale and significance is not comparable to that of the banking sector. Equally, the stock market has remained highly speculative with a focus

on insider trading (Durvasula, & Lysonski, 2010). Pension funds have faced limited capital and administration problems that have hindered their potential in the stock or bond market. According to Barth et. al. (2009), "With a fast-aging population and growth of households' disposable income, further development of a multi-pillar pension system is significant for both financial and fiscal systems, as well as, social stability." (p.9). Further, despite Chinese firms listing overseas, foreign investments by mainland Chinese have remained limited (China Knowledge Press, 2012). While China has made an effort to globalize its currency, the need remains to increase investment and savings products to enhance capital flow into and out of the country. This will also assist in satisfying the increase in currency hedging demand (Yang & Kuhn, 2012).

Any efforts to improve the Chinese banking system need to focus on reducing the control of the dominant banks, as well as, enhancing their efficiency. Chinese financial institutions need to work on educating their customer base. They can do so by showing clients how financing is a way of fulfilling their ambitions and securing their future. To that end, they can market products not as products, but as an effective means of utilizing financial resources. They need to deal individually with clients, personalizing products and services as they become available. Chinese financial institutions lack a professional staff (Fong, 2004). Many financial service professionals in China do not wholly understand the products they sell. This is due to poor training from management. This causes clients to lack an understanding of risk and to distrust financial institutions. Moreover, the development of the country's stock and other financial markets is significant to enhancing their role in resource allocation (Barth et. al., 2009). Additionally, the non-standard sector, consisting of alternative financing channels, governance institutions and mechanisms, needs to work harmoniously with banks and stock markets. This will ensure the growth of non-listed and non-state firms (the Hybrid Sector) (Barth et. al., 2009). For sustainable economic growth, China needs to mitigate destructive financial crises in the currency market and banking sector. While an increase in foreign capital inflows and foreign banks is likely to improve China's financial system and economy, large scale capital flows may also trigger destructive financial crises (Yang, & Kuhn, 2012).

The Beijing government has also begun to rely on the financial service sector in allowing people to plan for their futures. Before 1998, China's political leadership centralized financial market supervision through a series of regulatory innovations (Heilman, 2005). Previously, Leninist institutions provided China's politicians with a reserve capacity for responding to perceived organizational crises. This was crucial to establishing centralized supervision and uniform regulation. However, such a centralized regulatory framework failed to induce market-driven incentives for financial executives. Lack of rewards for leadership caused little motivation for the success of Chinese financial institutions. The excessive bureaucracy caused inefficiency and poor allocation of capital (Heilman, 2005).

China's financial services industry was decentralized in 1978, with the emergence of China Construction Bank, Agricultural Bank of China and the Bank of China operating as entities independent from the central banks (Mengchun, 2010). It was thought that the creation of these entities to function for certain segments of the economy would eliminate inefficiencies. Today, banking in China has undergone further decentralization, leading to the creation of several banks as follows: "Agricultural Bank of China, Bank of China, People's Construction Bank of China, Industrial and Commercial Bank of China, Bank of Commu-

nications, Long-term Development and Credit Bank, Import-Export Bank, Agricultural Development Bank, Rural Credit Cooperatives, Urban Credit Cooperatives and Small Regional Banks” (Ma, 1996, p.155). The top four banks are designed to make a profit, though they assume the risk themselves. Historically speaking, as economic policy, banking in China was merely a way to monitor cash flow for agricultural operations and secure lines of credit for enterprises. Investments were only available as fixed assets in state owned enterprises (Ma, 1996). They were not true investments because they were merely transfers or grants from the central government.

Liberalization has changed all this as China continues to look towards the West in learning how Western nations allow financial markets self-regulate (Ma, 1996). Research shows that China takes an interest in international finance and Western financial practices. Confirming this finding is the fact that the Beijing government is equipping China's financial infrastructure by streamlining regulatory bodies and bureaucratic oversight (Ma, 1996). Furthermore, field research shows that filial piety is as significant a cultural tenet of Confucianism as it is a motivator (Chang, 2011). A juxtaposition of American Jeffersonianism and Chinese Confucianism shows that the objectives of the two philosophical schools of thought align with each other and are compatible. Both seek to accommodate the ethereal while impeding extremism to facilitate a peaceful and civilized society.

## METHODOLOGY

### Approach

The research used a quantitative approach, in this case, a survey. The researcher sought to describe the attitudes of the Chinese towards Western-style financial planning (investing and the use of financial instruments for profit), as well as their financial behaviors. According to Sapsford (2007), “Survey research is the collection of quantified data from a population for purposes of description or identification of the covariation between variables indicating causal relationships or predictive patterns of influence.” (p. 3). The researcher needed to ask questions to know the characteristics of the Chinese in relation to their financial conduct and perceptions of Western financial planning approaches. Thus, the survey design required the researcher to develop a questionnaire for data collection.

### Sampling

The study used cluster sampling to select the sample. Cluster sampling is similar to stratified sampling as the researcher has to divide the population into discrete groups prior to sampling (Sapsford, 2007). The groups are termed clusters and are based on any naturally-occurring grouping. The sampling frame consists of the entire list of clusters. The researcher selects a few clusters using simple random sampling to get a representative sample of clusters. The researcher collects data from each case within each of the selected clusters. Thus, the researcher proceeds by choosing the cluster grouping for the sampling frame, numbering each cluster using a unique number and selecting the sample of clusters using random sampling. The clusters selected provide the basis for data collection. The cluster sample consisted of students taking business and hotel management majors at

Zhejiang Tourism College in Hangzhou during the period of Spring 2012. The researcher sampled 126 female and 74 male students, all of them between 18 and 24 years old. This ensured that the sample included a student from every year at the college. Cluster sampling is advantageous in that it is cost-efficient and reveals variations in the sample. According to Sapsford (2007), "It is common to use some form of cluster sampling to rationalize the spread of the sample and make the traveling manageable and economic" (p.84). Moreover, as a form of random sampling, cluster selection allows the researcher to represent the population fairly in the sample.

#### Instrument

The researcher used a survey questionnaire to find out the financial behaviors of the Chinese. The questionnaire also intended to determine the perceptions of the Chinese towards Western-style financial planning (investing and the use of financial instruments for profit). The question on whether the respondents had siblings sought to determine their socio-economic statuses. It also aided in determining whether respondents without siblings experienced the stress of bearing the responsibility of providing for their families. The researcher also sought to establish the respondents' socio-economic backgrounds from their responses on annual household income. Only one open-ended question was used, which asked respondents to write their age in years. Respondents were told to circle their reply, or select from multiple choice. In total, the researcher distributed 200 survey questionnaires to the participants. The respondents would complete the questionnaire themselves. The researcher would return to collect the completed questionnaires. According to Sapsford (2007), "The main advantages of self-completion questionnaires are their cheapness and saving the researcher's time, thereby, allowing data collection from much larger samples." (p. 109). The researcher used a self-completion questionnaire because this instrument permits the collection of data in a standardized manner, from a sizable sample economically (Sapsford, 2007). The standardized nature of the instrument means that the questions are phrased in exactly the same manner for all respondents.

#### DATA ANALYSIS

The quantitative approach of the study required that data analysis also take place quantitatively. This involved the use of descriptive statistics, in this case, the proportion of respondents who answered in one way or the other.

#### Demographics

The sample consisted of 126 females and 74 males. The respondents' gender distribution did not align with that of China as a whole. This may be due to differences in college enrollment trends. The respondents were between 10 and 24 years of age.

Respondents were then asked questions regarding their socioeconomic background. This allowed the researcher to determine the respondents' rural/urban distribution. 52% of the respondents were from a rural neighborhood while the rest 48% came from an urban setting. The distribution showed an almost perfect balance between respondents from urban and rural settings.

Similarly, the researcher asked respondents about their household incomes to determine their socioeconomic status. In this regard, there was significantly more variation across the sample. Thirty-six respondents (18%) answered that their annual household incomes were between RMB 10,000 and 30,000. More noteworthy is that the majority of the respondents (55%) answered that they had annual household incomes of RMB 50,000. The rest (27%) said that their annual household incomes were more than RMB 50,000.

Additionally, the researcher asked the respondents if they had any siblings. Although, in the West, this would seem to have little relation to wealth or socioeconomic status, in China, this does because of the One Child Policy. 41.5% of the sample answered that they had siblings. This shows that this sample came from families well above average financial means. The rest 58.5% of the sample said that they did not have siblings, implying that they came from low-income families.

### Financial Behaviors

Some questions inquired into the financial attitudes and behaviors of the respondents. They intended to gauge the financial habits of the Chinese and their attitudes towards Western-style financial planning.

The researcher asked respondents if they saved their money. Again, a sizeable minority (42%), answered yes while 54.5% or 109 respondents answered that they did not save any money. The rest 3.5% did not answer.

The researcher intended to determine respondents' financial planning behaviors. 96% of the students answered affirmatively to the question on whether financial planning was significant to them. The remaining 4% said no.

Students were asked if they thought about planning for their financial future. 50% answered yes and 50% said no.

Respondents were then asked if they worry about saving for their parents' future more than they do for their own. Results showed that most of the respondents (98.5%) focused on their parents' financial future rather their own. Only three respondents (1.5%) said no. Later, they came forward to make it clear that their parents are in a very fortunate economic position and that their parents told them to worry only about their own futures.

When asked if they felt obligated to take care of their parents in old age, the overwhelming majority of respondents (90%) answered affirmatively. The remaining 10% said that they did not feel such an obligation.

18% of the sample stated that they were not comfortable with investing in today's economy. The rest 82% said they were comfortable with investing in today's economy.

## DISCUSSION & CONCLUSION

### Discussion of Key Findings

The study sought to find out how traditional Chinese and Confucian cultural norms and traits influence the Chinese investor in the face of the rapid economic and cultural changes in China. The findings indicate that traditional Chinese and Confucian cultural norms and traits have a strong influence on the financial behaviors of Chinese youth, as well as,

their attitudes towards Western-style financial planning (investing and the use of financial instruments for profit). This affirms the observation of Madden (2005) on the adherence of the Chinese youth to their culture, despite their experience of China's newfound economic success.

The sizeable minority who said that they saved money reflected the saving culture of the Chinese. This finding aligns with the observations of Mengchun (2010) and Wolf (2011) on the tendency of the Chinese population to save. However, a possible explanation for the large minority of respondents who said that they did not save could be the fact that they are college students. College students in China, as in the United States, are typically on frugal budgets, funded by money from family members. They survive on limited funds, which prevent them from having substantial savings.

The findings indicated a substantial majority of respondents with annual household incomes of 50,000 RMB and above. This outcome aligns with the observation on the increase in household incomes of the Chinese population (Barth et. al., 2009). This finding indicates that many Chinese are capable of setting aside some of their income for investment. While most of the respondents perceived financial planning as significant, there was no difference in the number of respondents who answered affirmatively and negatively to the question on planning for future financial stability. This did not reveal any preference for Western-style financial planning, thereby, reflecting the focus of the Chinese on saving rather than investing and the use of financial instruments for profit. Similarly, the negative attitude towards Western-style financial planning was evident in the large number of respondents who admitted that they were not comfortable with investing in today's economy. Respondents expressed a cynical perception of the current economic environment. Respondents view the current global economic conditions with the same skepticism as their Western counterparts. This finding aligns with the observation of Mengchun (2010) on the conservative attitude of the Chinese towards investment, which is evident in the use of less aggressive products such as fixed money market bonds, notes and short-term financing.

A large number of respondents said that they worried about their parents' financial future rather than their own. This finding reinforced the influence of filial piety on the financial planning behaviors of Chinese youth. The impact of filial piety was also evident in the large number of respondents who felt obligated to take care of their parents in their old age. This means that they work hard to support their elderly parents financially and materially. This finding corroborates the view that filial piety is the most significant precept in Chinese culture (Chang, 2011). It also supports the observation that filial piety is a strong economic motivator (Hui et. al., 2011; Seok-Choon et al., 2011).

### Conclusion

The findings indicate that China's Confucian principles influence the financial behaviors of Chinese youth. This is a pivotal revelation of this research as it shows that Chinese youth still revere and practice Confucian principles regardless of their socio-economic position. Equally, traditional Chinese and Confucian cultural norms still have a strong influence on Chinese youth, despite the rapid economic and cultural changes occurring in China.

### Presentation of Limitations and Implications



One of the research limitations is that it did not investigate Chinese preferences for Chinese or foreign financial institutions. Field research was conducted in Zhejiang province, People's Republic of China. Zhejiang province is one of the most economically robust provinces in mainland China. Given the affluent nature of the area in which field research was carried out, this may have skewed the findings. Consequently, the results may not be the same if the researcher repeats the study using economically diverse areas as the sampling frame. Similarly, since the study concentrated on one province, the findings may not be generalizable to other regions in China. Moreover, the study focused on a student population whose saving capability is limited because they survive on frugal budgets. Thus, the results on their financial behaviors and attitudes towards Western-style financial planning may not be generalizable to non-student populations and persons beyond the 18 and 24 age bracket.

#### Suggestions for Future Research

The finding that filial piety is an economic motivator raises at least two significant areas for future research: firstly, are there existing financial products available that are organically Confucian and secondly, if not, can financial products be conceived bearing Confucian principles in mind? Future research could examine the influence of Chinese preferences for Chinese or foreign financial institutions on the financial behaviours of China's youth. A similar study in economically diverse parts of China would be a possible avenue for further research. In addition, researchers could conduct a similar study involving non-student samples and individuals outside the 18 and 24 age bracket. Further, since Confucianism focuses on ethics, it is capable of triggering virtuous conduct. Thus, this paper proposes that future studies could explore the influence of this ideology on the ethical practices and standards of businesses in East Asia.

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**Author's Biodata:**

Jessica is currently working as an adjunct professor for Concordia University Irvine while residing in Hangzhou, China. She is in the final year of her doctoral studies at Zhejiang University. Joshua Petersen was recently graduated from Concordia University Irvine MAIS Program. He acted as co-researcher in this project. He currently resides in Los Angeles, California.

**Authors' Email Addresses:**

Email: jessicamelanieg@gmail.com; joshuapr84@gmail.com