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Overview

Corporate responsibility, Chinese-style

By Paul French, China editor, in Shanghai

As China's economy has exploded, concepts of sustainability and business ethics have developed that differ from those in the west

Since the launch of the Reform and Opening Up policies of the late 1970s and early 1980s the People's Republic of China has been on a prolonged trajectory of economic growth. This growth saw the country achieve double-digit annual GDP growth for more than a decade, and even now growth is topping 8%.

In large part the success of the Chinese economy has been predicated on two factors. First, is the ability to produce goods cheaply and in large quantities for export, attracting multinational companies to increasingly source products from China. Second, as labour costs remain low by international standards and global supply chains became increasingly integrated, so foreign companies have increasingly opened their own manufacturing operations in China.

This has meant that China's economic growth has been driven largely by export earnings and inward investment, making the country the "workshop of world" and the planet's largest holder of foreign currency reserves.

The range of products and goods sourced from China is staggering. The largest single buyer, US retail giant Wal-Mart, is, by some estimates, buying as much as $27bn a year in Chinese goods. Crucially, as China has progressively moved up the value chain, the country has moved from being the producer of countless plastic goods, toys, jeans and T-shirts to a producer of hi-tech mobile communications, cars, ships and iPods.

Workers without number

Nobody really knows quite how many factories there are in China or how many people employed. As an indication, the government admitted that 20 million workers lost their jobs with the downturn in sourcing at the start of the recent recession. Large companies work with a network of factories employing thousands in total. For instance, Nike is thought to have products made in 180 factories across China employing about 200,000 workers. Monitoring operations as extensive as these has proved a daunting challenge.

This sustained 30 years of expansion has not been without bumps along the road. China's vast rural population has been steadily urbanising, leading to massive internal migrations from the farms to the factories. China's cities have become huge megalopolises with the government desperately trying to create new jobs to support those moving from agriculture to manufacturing and services.

At the same time an internal revolution has been occurring as China's large state owned enterprises, the backbone of the country's heavy industry, have been privatised, with many now listed on newly

Tiananmen: all quiet now

created stock exchanges. And China's banking and finance system has been the subject of repeated reforms.

Both these elements of reform have led to any number of issues including emerging notions of corporate governance, corruption and labour rights – issues that have at times, most notably during the Tiananmen Square demonstrations in 1989 and their brutal suppression, burst into protest and challenges to the ruling Chinese Communist party.

Put simply, China, the world's most populous country, is now heading towards becoming the world's largest economy too. Yet it is still an economy and a country in transition. As fast as the economy has grown, and people's expectations of higher living standards have been raised, the Chinese legal system, governance structures and social welfare policies have not always managed to keep pace.

Now, in the face of the international recession, China has begun to reorient its economy as export orders have slumped – away from a reliance on manufacturing for export and attracting inward investment to increasingly attempting to harness the potential of the country's domestic market and its consumption capabilities. This desire was most recently expressed at the Davos World Economic Forum by the Chinese vice-premier, Li Keqiang, a man tipped to be China's next leader after Hu Jintao stands down. He said: "We will focus on boosting domestic demand. The growth in domestic consumption in China will not only drive growth in China but also provide greater markets for the world."

China's economic growth has brought

China corporate responsibility factsheet

Socio-economic statistics
Population: 1.34 billion
GDP (nominal): €3.2tn (2008)
GDP per capita: €2,400 (2008)
Monthly minimum wage: €78 (720 yuan, 2007)
Human Development Index
China: 0.772
(ranked 92 out of 182 countries).
Hong Kong: 0.944
(ranked 24 out of 182)

Current leadership:
President: Hu Jintao
Premier: Wen Jiabao
Type: Communist

Primary industries:
Mining and ore processing, iron, steel, aluminium, and other metals, coal, machine building, armaments, textiles and apparel, petroleum, cement, chemicals and fertilisers, consumer products, including footwear, toys, and electronics, food processing, transportation equipment, including automobiles, rail cars and locomotives, ships, and aircraft, telecommunications equipment, commercial space launch vehicles, satellites

Ethical Corporation survey results

Corporate responsibility statistics

Number of employees spending 50% or more time on CSR/sustainability:
38% have over 11 employees
17% have 5-10 employees
38% have 2-4 employees
4% have 1 employee
4% have none

Size of CSR/sustainability budget:
36% have a budget over €30,000
18% have a budget €20,000-30,000
9% have a budget €10,000-19,000
18% have a budget €5,000-9,999
9% have a budget €1,000-4,999
9% have a budget under €1000

Focus of CSR/sustainability team:
1. Partnerships and collaboration (50% indicated it as a main activity)
2= Energy efficiency (33% indicated it as a main activity)
2= Performance measurement (33% indicated it as a main activity)

Local sustainability leaders (most mentioned):
1. China Ocean Shipping Company (COSCO)
2. China Mobile
3. State Grid Corporation of China
4. Haier

Foreign sustainability leader (most mentioned):
1. Nike
2. Bayer
3. Volkswagen
4. Procter & Gamble

Guidelines and initiatives most preferred:
1. GRI
2. UN Global Compact

Top challenge/risk:
Change internal perceptions of CSR and gain support

Top three opportunities:
1. Energy
2. Provide value to business partners
3. Develop sustainable products

Guideline and standards statistics

Number of 2009 GRI reports: 47
Number of DJSI licensees: 1
Number of UNPRI signatories (Hong Kong only): 4

Sources:
- Socio-economic statistics obtained from recent publications by the IMF, the CIA World Factbook, the European commission, the ILO and the Human Development Index.
- Corporate responsibility statistics obtained from a January/February 2010 Ethical Corporation survey.
- Guideline and standards statistics obtained during February 2010 from the official website of each initiative.

massive change for its 1.3 billion people. China's urbanisation rate will reach 48% in 2010, according to the Chinese Academy of Social Sciences and is expected to exceed the critical 50% mark in 2012 or 2013. Urbanisation is expected to spur consumption as China's roughly 200 million migrant workers send money earned in the cities to their families in the rural areas. China's numbers are always vast – when the urbanisation rate grows by 1% about another 10 million people have moved to the towns and cities.

In those towns and cities – and China has more than 660 cities of which 99 have populations officially over one million – lives have changed dramatically in the past three decades. Vibrant property markets have exploded, the number of service jobs has grown, educational opportunities have expanded and a swelling middle class has emerged.

Huge problems remain – China's social safety net is thin with poor medical coverage and an inadequate pensions system for a rapidly ageing society – and, of course, while the past few decades have seen massive doses of "perestroika" reconstruction there has been little to no "glasnost" openness.

Urban bright lights burning strongly

Lack of freedom

There is effectively no independent judiciary, no free press and heavy censoring of all forms of media including the internet. There are limitations on international travel and capital movement. As is well known, the Communist party brooks no challenge to its ruling legitimacy through either independent organisation, protest or democratic activity, which is important when considering the role of NGOs.

This then is the backdrop against which a concept of corporate responsibility – qiye shehui zeren – has begun to emerge and attract attention in China. Just as Deng Xiaoping announced that China would have "capitalism with Chinese characteristics" so it seems that China's evolving notion of corporate responsibility will also have its own set of caveats and distinctive parameters.

To better understand this evolution in China it is crucial to understand two divisions. First, contrary to popular definitions in the US and Europe that highlight the voluntary nature of corporate responsibility, most of the debate around corporate responsibility in China focuses either on legal compliance on the one hand or corporate philanthropy on the other.

Second, there is a broad distinction between the importance attached to corporate responsibility, its implementation and enforcement between Chinese companies, whether private or state-owned, and foreign firms operating in China. The gradual emergence and integration of many Chinese companies, from oil firms to kitchen appliance makers, in the global market has begun to change this, but it is still fair to say that there is a major divide in approach between local and foreign. This is often a source of conflict and misunderstanding.

China's evolving notion of corporate responsibility will also have its own set of caveats and distinctive parameters

The result is that national and international stakeholders do not yet share a common understanding of corporate responsibility in China. Still less do shareholders in the west always understand the constraints and the landscape companies operate under in China. This again has led to problems.

Similarly, NGOs in China are not able to operate with the freedom of movement and voice they have in other countries. The development of domestic company corporate responsibility strategies, those of foreign firms operating in China and the nascent NGO movement are all guided by these concerns and constraints. Understanding these differences, and the fact that the Beijing government will evaluate any corporate responsibility initiatives in terms of its two major objectives – staying in power and promoting the slogan of a "harmonious society" – is crucial to evaluating what is achievable in China and measuring progress.

The result has been a growing convergence between the corporate responsibility activities of domestic and foreign companies in recent years as Chinese firms expand their definitions of corporate responsibility and foreign companies come increasingly to seek to raise their profile domestically rather than simply respond to overseas criticisms. And so, it's been a busy time for corporate responsibility in China recently. ■

Sourcing in China

A unique attitude to responsibility

By Paul French, China editor, in Shanghai

China's factories, suppliers to the world, have developed philanthropy projects but not yet established proper corporate responsibility programmes

China has been a major challenge for the corporate responsibility profession, mainly because it is so important. Most big clothing, electronics and automotive companies, and countless firms in a host of other industries, source primarily from China.

While western buyers were enticed by attractive pricing, many failed to make sure that their Chinese partners could live up to their technical and logistical requirements. Supply chains became problematic. When Chinese suppliers struggled to meet production schedules, buyers used expensive airfreight, for example.

Quality issues also surfaced. Chinese suppliers often lacked the skills to maintain process control and implement engineering changes. The combination of problems often eroded the expected cost savings.

Just before the 2008 Beijing Olympics, Nike issued its first country-specific supply chain report and it chose China. Nike detailed the efforts it had been making to encourage suppliers to comply with its code of conduct and Chinese law, including a programme to monitor Olympics-related suppliers.

The report noted problems such as falsification of factory documents and payroll records, a lack of effective grievance systems for workers and hiring practices that did not ensure minimum age standards were met. Nike had rolled out a programme to check the identity of some 150,000 of its workers in China and found 167 cases of people who were below minimum age when they were hired. Sometimes companies such as Nike have been reduced to simply trying to ensure workers are paid. In 2005 and 2006, Nike "secured" more than $921,300 in back wages owed to workers in China alone.

The need to address basic issues, such as whether contracted factories are abiding by local laws or paying their workers, naturally cuts into the time and effort that can be expended on more advanced corporate responsibility initiatives in China.

Beyond philanthropy

There are still two stories in China: the approach and activities of local Chinese firms and those of foreign companies operating in the country.

A 2008 survey by the Environment-Oriented Enterprises Consultancy in Zhejiang, one of China's wealthiest provinces, found: "Foreign multinationals are both more actively engaged in CSR activities in China than their Chinese counterparts and more effective at communicating their respective CSR activities." Chinese companies that do communicate their engagement on responsibility issues have tended to focus particularly on community investment and philanthropy. There are a number of reasons for this.

The vast majority of Chinese companies are private and not listed internationally and so are not submitted to the same sorts of shareholder or NGO pressure as foreign companies. Most of these companies simply do not, as yet, realise the potential benefits of corporate responsibility.

It is also the case that most Chinese companies that are not state-owned enterprises are owned and managed by individuals who exercise a large degree of personal power within the company and have often become very wealthy. And political priorities have so far stressed the need for "harmony" in a society emerging from rigid socialism and into an environment where many individuals have become rich.

So community investment is popular because factories are located in relatively poor areas; areas where government spending on social welfare has been minimal. Beijing has been keen to see companies invest in social infrastructure such as hospitals, clinics and schools. In part, this is a political trade-off – business people and entrepreneurs know they exist in a relatively grey area and their newly acquired assets are not well protected under China's rather weak legal system.

While some business people do genuinely wish to do good it is also widely accepted that many put money into community investment projects to curry favour with the government. Similarly with philanthropy.

The rise of corporate philanthropy has been rocky to say the least in China. Originally it was encouraged and pointed to, by both business people and the government, as a sign that a corporate responsibility mentality was emerging. This movement really peaked after the Sichuan earthquake on May 12 2008 (known simply as 5/12 in China).

About $1.5bn was donated, mostly by Chinese companies, but also by ordinary people and foreign companies in China. Despite praise at the time, questions were soon raised by both NGOs active in the quake zone and China's notoriously tetchy blogosphere as to how much money had

really been donated, where it went and how it was spent.

Official statistics, reported in the China Daily newspaper, show that charitable donations in China grew 3.5 times from 2008 to 2009. But more recently the blogosphere has become seemingly increasingly disenchanted with "Big Boss" corporate philanthropists.

A widely reported example is that of Chinese entrepreneur Chen Guangbiao, chief executive of Jiangsu Huangpu Investment, a property company. Chen made large donations to 5/12 disaster relief but then publicly criticised the government's lack of transparency in explaining how the money was being spent. He decided to donate straight to where cash was required, telling the Chinese press: "An inadequate charity system and lack of openness and transparency on funds are the main reasons that many entrepreneurs choose to donate directly to the poor."

However, his latest philanthropic venture – to travel with 126 other philanthropists to China's poor western regions, taking with them $6.3m – appears to have backfired. After Chen was pictured standing in front of a wall of money, many in China's online community questioned his motives and accused him of generating publicity for his own benefit, and trying to establish himself as an "economic personality". That these posts have not been blocked indicate that the government is allowing these questions to be asked, which they did not when they were raised after 5/12.

Western brands can provide an ethical boost

Foreign vs domestic

With the recent rise of philanthropy by Chinese companies being openly questioned, many are now looking beyond the simple giving of cash. Rather than outbidding each other on philanthropic donations Chinese companies are turning their attention to the activities typified by foreign multinationals in China that are both broader and also welcomed by the government – good corporate citizenship.

Foreign companies in China are more engaged in developing corporate responsibility than domestic companies. But they have still found themselves in trouble. Western companies from Timberland to McDonald's and Nokia to Apple have been criticised in the press locally and internationally over issues ranging from pay to unions, health and safety to human rights.

Auditing and maintaining corporate responsibility programmes has proved problematic with so many factories to cover – a typical European clothing brand might source from more than 150 factories in China and have many more sub-contractors.

Increasingly foreign companies have sought to become good corporate citizens in China as they both manufacture for export and try to tap into the growing domestic market for their products and brands. This has meant that while, perhaps five years ago, most companies focused their corporate responsibility activities on working conditions, they are now moving closer to the Chinese model of stressing community investment and philanthropy.

The rising green consciousness in China is coming about as a direct result of the rise and expansion of an educated middle class

It is only a couple of years since Jonathon Porrit, the environmental campaigner, annoyed many in China's nascent green movement by claiming in an interview with the bilingual website China Dialogue that Chinese people only cared about getting rich and not the environmental cost of the process. Porrit has since changed his views on China, but still, to those living and working in China on corporate responsibility and the environment, they were reflective of a major disconnect between western impressions of the country and the reality.

The rising green consciousness in China is coming about as a direct result of the rise and expansion of an educated middle class. This now numbers more than 600 million people in households with an income of between $7,000 and $9,000 a year. This emerging class is highly urbanised, is educated, and invariably works in white collar occupations. These people have begun to acquire property, cars and appliances as well as being better travelled

Sichuan earthquake provoked widespread charitable giving

both internally and often outside China.

This is a sizeable group of people with a high awareness of issues, the means to express them (via the internet) and a more international outlook. They are the group most concerned about food quality, air quality, water quality and sustainability. They have a stake in China's future and are often members of the 74 million strong Communist party. They also happen to be the backbone of the ongoing consumption boom that the government has staked its future on.

In the past many in the corporate responsibility and environmental movements in China had noted that foreign companies were not enacting policies in China that were in place in their home markets. The most obvious of these were the retailers and fast food brands.

That is changing now. In the last couple of years British supermarket chain Tesco has launched a number of energy saving and environmental initiatives in its China stores that it had enacted several years previously in the UK. Opening a new store in 2008, Tesco's China chief executive Ken Towle said: "We are very pleased to announce our first green store open in China. Energy saving has become a hot issue in the nation."

There have also been moves to reduce packaging and introduce more recyclable packaging by many international retailers and fast food chains in China. However, while this is welcome it should be noted that these changes have largely been introduced in response to new laws by the Chinese government banning plastic bags and enforcing recyclable packaging.

Foreign companies were not enacting policies in China that were in place in their home markets

So China's new middle class is now more aware of the environment – from the legion of university "green clubs" springing up on campuses to the outpouring of environmental debate in the blogosphere.

While the government media praised the Chinese delegation's work at the Copenhagen climate summit, there were raging debates between government supporters and detractors on the internet, many feeling China was not acting responsibly. For observers of China the problem is understanding that Chinese citizens do not have the same opportunities for action as those in other countries. Letters to editors do not get printed, mass protests are forbidden, legal action virtually impossible.

However, the new middle class is finding ways to make its voice heard. Sometimes this is through discreet protests. Communities protesting about polluting factories have gathered and walked in small groups

Multistakeholder initiatives – not there yet

The last few years have seen a growing amount of talk in China of **multistakeholder initiatives** (MSIs). However, to date, real examples of MSI projects have been few and far between and encountered a host of problems.

In 2003, for example, **nine Hong Kong labour groups** and trade union organisations, including the Hong Kong Confederation of Trade Unions, became involved in a MSI developed by a British group, the **Ethical Trading Initiative** (ETI). The Hong Kong groups and ETI committed significant amounts of time to the project but there has been almost nothing to show for this effort. Eventually, the Hong Kong groups involved withdrew.

The ETI initiative necessarily had to involve China's only trade union, the state-sponsored **All-China Federation of Trade Unions** (ACFTU). In fact, having to deal only with this state union has long been a problem for all MSIs in China. Many of the Hong Kong participants and ETI wanted stronger shop-floor involvement, which was strenuously resisted by the ACFTU. The union wanted to have control of all Chinese worker involvement.

There was poor communication – both the Hong Kong groups and the local ETI coordinator became caught up in a morass of negotiation with largely uninterested local corporate representatives and confused suppliers. Again communication between the partners and the ACFTU was virtually non-existent.

Finally the initiative suffered from weak corporate commitment. This was perhaps its key failing and is in fact the reason given for the weakness or failure of most attempted multistakeholder initiatives in China. Too many reps at Chinese factories have no real understanding of corporate responsibility issues. Others have conflicts of interest being both sourcing managers and compliance officers at the same time.

Trolley green giant

around government offices to avoid being identified as mass protests. Of course, other Chinese people see immediately what is happening.

While Chinese consumers may not be able to demonstrate, sue or bombard newspaper editors, they can exercise choice in where they shop and what they buy.

While Chinese consumers may not be able to demonstrate, they can exercise choice in where they shop and what they buy

Foreign, and increasingly domestic, brands and retailers realise this. Initiatives such as Tesco's and others – Marks & Spencer introducing Plan A in its first Chinese store in Shanghai for instance – are becoming both more common and more regularly reported in the Chinese media.

While both domestic and foreign companies are concentrating their corporate responsibility strategies increasingly on community investment, philanthropy and the environment, the issues of factory conditions and human rights have not gone away. Indeed, they have become even more pertinent.

With export orders harder to find and a number of scandals involving everything from toothpaste to dog food and iPods, many Chinese companies have looked to corporate responsibility as a potential way to fight back. In this they appear to be supported by the government. Though many factory owners still see corporate responsibility as a western concept they do see it as a potential method to counter criticism of China's labour and environmental practices.

Textiles has been an area where China has become a massive exporter and come under fire for working conditions. Some factories had been better at working with their western buyers on corporate responsibility than others.

A universal code of conduct was the goal of many. And on this China has responded. The China National Textile and Apparel

Case study: Tetra Pak

A prime example of a convergence in CR is Sweden's **Tetra Pak**, the world's leading supplier of packaging. Having been operating in China for 30 years, the company has Chinese investments of more than **€250m**.

Tetra Pak is one company that issues a China corporate responsibility report, in which it breaks downs its projects in China into three elements: its **Food for Development** programme, environmental sustainability and philanthropy. Li Hexun, Tetra Pak's China president says: "I hope we can do more CSR work in China, since the greatest significance of an enterprise in society is no less than the value it creates for others."

Tetra Pak has been involved in a school food programme, which it claims has been a major success. The programme provides milk to school children in poorer provinces, arranging cheaper prices for milk between local governments and suppliers. According to Yang Lei, communications manager for Tetra Pak China: "120m yuan [**€12.9m**] has been committed to the school food programme so save milk costs and promote health education since 2000."

Low cost milk

So far **170** primary and middle schools in 24 provinces and cities have received milk in Tetra Pak packages at low prices – totalling **3.5m** portions per day. Obviously Tetra Pak, a major supplier of packaging to China's burgeoning dairy industry, has an interest in more people drinking milk. But the company also believes its programme will spur the development of local agriculture, according to Ulla Holm, Tetra Pak's global head of Food for Development.

Tetra Pak has also worked to raise environmental consciousness – aiming to reduce its carbon emissions in China by **10%** in 2010 and sponsoring environmental awareness adverts on Chinese TV. The company has also upped its philanthropic contributions and is the biggest patron of the Maternal and Infant Health Project of the China Foundation for Poverty Alleviation (CFPA). It donated **$1.5m** during the Sichuan earthquake which was spent on reclaiming damaged farmland.

Tetra Pak's activities are typical of the areas foreign companies are now moving into as they attempt to be seen as good corporate citizens in China and build their initiatives that are more visible to the Chinese people. Cynics may say that this is all just business – Tetra Pak wants more milk to be bought, Tetra Pak encourages recycling because they sell the processing machinery for recyclable containers, Tetra Pak donates money to please the government. But, it is the case that Tetra Pak, like many other foreign brands, is increasingly talking to a more aware and questioning Chinese consumer.

Chinese vs foreign companies – CR survey

A 2008 survey by the Sino-German Corporate Social Responsibility Project researched both Chinese and foreign companies to see what corporate responsibility activities they were engaged in.

Chinese domestic companies revealed the following results:

- **10%** of the surveyed companies reported no information related to any of the 12 elements on their English website but did report information about their respective CSR activities on their Chinese websites.
- **70%** of the companies indicated that they were actively involved in different levels of philanthropy.
- **26%** conducted activities related to cleaner production and eco-efficiency, health and safety, and environmental management systems.
- **23%** of the companies' surveyed reported activity in community investment.
- **20%** reported waste and recycling activities.
- **13%** offered information on having a code of conduct.
- **10%** reported that they published an annual CSR report and have anti-corruption policies.
- **7%** actively engaged with stakeholders.
- **3%** had HIV/Aids programmes and indicated the inclusion of a labour rights programme.
- **3%** reported no information relating to any of the 12 CSR categories.
- None of the companies provided information on equality and diversity.

Research of the foreign multinational companies' websites revealed the following:

- **20%** of the companies reported no information on their Chinese website concerning the 12 CSR elements.
- **77%** were actively engaged in community investment.
- **50%** reported publishing a CSR report and were actively engaged in cleaner production and eco-efficiency.
- **37%** included information regarding health and safety programmes.
- **33%** reported having environmental management systems.
- **30%** reported that they engaged with stakeholders and reported waste and recycling operations.
- **20%** explicitly stated that they had codes of conduct and labour rights.
- **10%** reported equality and diversity policies and included HIV/Aids programmes.
- None of the foreign multinationals reported issues related to anti-corruption policies on their respective websites.

Source: www.chinacsrproject.org

Working hard for the national good

Council is a government-linked body overseeing the industry. Its job is improving China's reputation to bring in more work and has developed a three-pronged strategy: oppose dumping by Chinese companies, something that had been concerning the US and EU; try to tighten up infringements on intellectual property, something many Chinese textile firms are guilty of; and introduce concepts of corporate responsibility across the sector.

Their solution was CSC9000T, a code of conduct, or as the Chinese prefer to call it, a "management system". Then the recession hit and CSC9000T appeared to be forgotten. Indeed the pressure from outside as well as internally for change appears to have receded.

Chinese factories are in a holding pattern, in survival mode amid a slump in export orders

Alexandra Harney, the Financial Times south China correspondent, whose 2008 book "The China Price" surveyed the state of corporate responsibility in China, says the old problems of falsification of factory audits and lack of enforcement of the labour laws remain widespread.

Initiatives still occur but are questionable. The government-issued China Corporate Social Responsibility Development Index Report (2009) says that the corporate responsibility index of foreign-funded manufacturing enterprises in China lags far behind that of their Chinese counterparts. The researchers say the low corporate responsibility index of foreign-funded companies is mainly caused by a lack of disclosure on the subject in China. However, a major benchmark was charitable donations, a questionable strategy in China due to the politicised nature of giving.

At present Chinese factories are in a holding pattern, in survival mode amid a slump in export orders. Enforcement of the new 2008 labour laws appears weak. Workers are being encouraged to work hard for the national good and protests are being repressed. The west is largely obsessed with its own problems and so the spotlight on China is far less bright than it once was. And so, many observers see China's factory conditions as a forgotten cause in these economically troubled times. ■

The role of NGOs

Smoke and mirrors disguise true corporate activism

By Paul French, China editor, in Shanghai

In western terms, NGOs do not exist in China as the government's control extends into civil society

Prepared to get involved

Non-governmental organisations find themselves in China amid the best of times and the worst of times. Anecdotal evidence indicates that the number of Chinese people volunteering to become involved in NGOs – mostly the young, urbanised and educated – is exploding.

With no real way to express themselves on causes outside the rigid Chinese Communist party structure, NGOs are providing a "space" for the concerned youth of China to get involved. However, the government places severe restrictions on the establishment and activities of NGOs, domestic and foreign. It monitors them closely and has repeatedly interfered in their campaigning work.

For many NGOs the balancing trick between attracting more support and volunteers and maintaining a good relationship with Beijing is becoming a major problem.

The China head of one well-known international NGO, who wished to remain anonymous, told Ethical Corporation that he was now in a strange position. He had come to China to try to make change and inspire and encourage young people to become involved in environmental issues. He has been so successful that he now spends most of his time reining in his enthusiastic volunteers from organising too much and attracting the government's ire.

Government takes charge

There are about 387,000 registered NGOs in China; a further unknown number exist but remain unregistered. Most are forced to have some sort of relationship, or "partnership", with a government-linked body – the so-called Gongos (government operated non-government organisations).

Zhai Yan, director of the Huizeren Volunteer Development Centre, based in Beijing, says NGOs' main challenge now is not that the government will not let them grow. It is that they do not know how to grow. Others disagree, arguing that the government is seeking to constrain the burgeoning NGO sector and see it as overly corporatist, suggesting that most domestic NGOs exist primarily as another mechanism for the state to communicate its interests to society.

This may be true in the case of most Gongos, and the government's extensive regulation and monitoring system certainly validates the corporatist perspective. Typical of these new-type Chinese NGOs that appear to be essentially philanthropic organisations was the January launch of the 7th Shenzhen Care Project, which claims to be a prime example of a "new social aid NGO model" that derives from "the innovative socialist country's national social aid model".

> *The government places severe restrictions on the establishment and activities of NGOs*

The Shenzhen Care Project has organised various philanthropic social programmes under the themes of "love, thanksgiving, return" to be carried out one after another in Shenzhen.

What all this means is not clear though it appears to tap into the government's desire to encourage patriotism and a "harmonious society". Many of these new "NGOs" are essentially offshoots of Chinese companies or organised by wealthy business people.

The field an NGO works in has a great deal to do with how it is perceived by Beijing. NGOs providing rights advice to workers or, for example, seeking compensation for the victims of blood plasma pooling that led to HIV/Aids infection have been repressed and curtailed by Beijing. Others, working in areas such as wildlife preservation and the environment, have been given more latitude.

Climate action

The Chinese Civilian Society on Climate Change was established in 2007. Its mission is to discuss and respond to climate issues and reach a consensus on future actions regarding climate change. NGOs including Friends of Nature, Global Village of Beijing, Green Earth Volunteers, Institute of Public and Environmental Affairs, Greenpeace, Oxfam, and Action Aid are involved. They had been soliciting Chinese civil society's stance on climate change since last June, holding a series of discussions before the formal release of a document – Chinese Civil Society on Climate Change (2009). This report has been circulated but was not reported in the Chinese media.

And so ultimately for NGOs it has come down to finding areas where they can operate. NGOs still cannot really campaign in a way they can in the west, though there is deemed to be more political space around the environment question than, say, human rights. This is another reason many corporate responsibility strategies are focusing on environmental and community issues rather than traditional factory based reforms. ■

The political dimension

The intricate web of business and state

By Paul French, China editor, in Shanghai

While public and political perceptions of business ethics and sustainability had been evolving, recent events have turned attention back to corporate philanthropy

Environmental issues emerged from the gloom

China's economy is opening up, and has been for three decades now, but its political system remains rigid. Many of the initiatives citizens use in other countries – protests, leaflet distribution, setting up ad hoc organisations – are all virtually impossible in China or at least involve major personal risk.

As the recent arguments over Google's threat to pull out of China show, censorship remains firmly in place across the media.

On the other hand the Chinese business community, as Alexandra Harney – the Financial Times southern China correspondent – notes, should be more receptive to corporate responsibility initiatives now than at any other time previously. This is due in part to the global recession, making export orders harder to find and so shifting power further towards buyers and away from manufacturers.

Foreign buyers have found that demands for more health and safety training, better living conditions and other basic aims are being listened to more seriously now as the other side is more desperate to sign the contract. Harney also points out that China's factory owners and managers are increasingly a new generation – younger, better educated, more aware of international best practice and keen to build their companies up from cheap assembly shops into world class factories.

In contrast to the previous generation that followed Deng Xiaoping's advice and "jumped into the sea" starting businesses, the new generation of factory owners understand that social capital is as important as financial capital. As this generation gradually takes over more and more of China's economy, many believe the future of corporate responsibility will be brighter. But at present this is not the case.

However, it is the environment that overshadows so much in China now. The government is being forced to deal with environmental issues through its heightened international role as a world power. And it also has to act in response to the growing environmental awareness of Chinese citizens.

Combating growing environmental degradation and carbon emissions in China will be hard but many believe it can be done. Jonathan Watts is the Guardian newspaper's East Asia environment correspondent and a Beijing resident. He highlights China's fast adoption and roll out of alternative energy technologies such as wind and solar power as well as the rising environmental consciousness among China's rapidly expanding middle class.

Increasing consciousness

Chinese citizens, organised in Chinese-style NGOs, on the blogosphere, in a university green club or perusing the shelves in their local supermarket, are now increasingly conscious of corporate responsibility issues. They have used the internet and informal networks to punish many companies and brands they believe to be endangering their health, mistreating them or disrespecting them – boycotts and online attacks are just two methods they have developed to bring the recalcitrant to heal.

The thrust of the drive behind corporate responsibility in China is the Chinese watching themselves and those who operate in their country. In this sense, corporate responsibility in China has the potential to become a more internal and important issue.

There had been moves towards establishing a focus on improving worker conditions, dealing with environmental impact and the other well-trodden stakeholder engagement issues. Since the Sichuan earthquake and the international recession, however, corporate responsibility in China has shifted towards the more traditional charity and community involvement.

Alex Harney sees a "danger of regression back to philanthropy and well-timed donations to politically salient causes" rather than any attempts to promote fundamental and structural change. This, she adds, "is neither sustainability nor CSR".

Workers were promised change, not least in the form of new labour laws introduced in 2008. Analysts argue that workers will remember those promises. At the same time the rising environmental consciousness of many ordinary Chinese could lead to a more rounded embracing of concepts of sustainability.

History has led many companies in China to feel unsupportive towards corporate responsibility initiatives. One company corporate responsibility manager, who like many requires anonymity, comments that at the moment he is not able to persuade Chinese partners that corporate responsibility is not just PR and that there has to be more than just a press release of stated intentions that are never followed through.

There has not been enough embedding of corporate responsibility in Chinese business culture. Until that happens then larger concepts of sustainability and business ethics are likely to remain on hold. Perhaps the younger generation holds the key to China getting back on track. ■