

Advancing Corporate Citizenship in China

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China was a business focal point throughout 2004. Rapid economic growth and openness was coupled with increased scrutiny over corporate practice, both from companies emerging as well as those looking to inward investment. Gavin Power outlines how the UN Global Compact has been engaging with China's business and government leaders, with encouraging signs for the future.

Few countries epitomise both the benefits and the challenges of globalisation like the People's Republic of China.

For the past several decades, China has been the world's fastest growing economy, and today attracts more than \$1 billion dollars in foreign direct investment, on average, *every week*. Chinese corporations are becoming leading players in the global economy, bringing rising levels of prosperity and opportunity for millions of Chinese, and putting this developing nation on the road to becoming an advanced industrial country.

However, breathtaking changes are also posing severe challenges – many social and environmental in nature – for the so-called “workshop of the world”. For many observers and critics, with the prosperity enjoyed by the Chinese business sector must also come responsibilities. And, to be sure, some of these responsibilities will necessarily extend to foreign companies doing business in China, or pondering establishing operations in the world's most populous nation – a potential market of 1.3 billion.

Challenges ahead

Indeed, a range of questions are today being asked as China's liberalising market economy creates new problems and tensions. Among them:

- How should policy makers address the uneven development between China's increasingly affluent urban centres and poorer rural areas, between the east and west of the country?
- How can cities and their social systems cope, in a fair way, with the influx of migrant workers looking for economic opportunities and a better life?
- How can the Chinese government be encouraged to accept freedom of association and collective bargaining?
- How can workers' rights be effectively protected as more and more foreign companies source products in China?
- How can economic growth be balanced with the protection of environmental systems?
- How can business – domestic and foreign – most effectively help tackle challenges such as corruption and halting the spread of HIV/AIDS – problems acute in China today?
- How can the multitude of supply chain codes of conduct be harmonised to reduce transaction costs and improve efficiencies?

Chinese corporations are becoming leading players in the global economy.

These and other questions, many brought on by economic liberalisation and globalisation, are being asked throughout the world as China's ascension brings wanted and sometimes unwanted attention and scrutiny.

Within this context, two fundamental and related questions arise: Can Chinese business leaders be a force in advocating and advancing universal principles in areas such as human rights, labour standards, the environment, and anti-corruption? Further, what will be the role of foreign companies in pushing the concept of responsible corporate citizenship?

Integrating the three pillars of sustainability

There have been indications that favourable trends could emerge and new initiatives will take root in the not-too-distant future. In late 2002, for example, a meeting took place in Beijing that illustrated how China is beginning to tackle complicated and controversial social and environmental issues as it seeks a more prominent and legitimate place in the world economic order.

The International Human Capital Forum, co-organised by the United Nations Global Compact, drew nearly 300 participants, including high-

ranking Chinese government officials, business leaders, scholars, labour representatives, and human resources specialists from China and abroad to focus on the question of how universal social and environmental principles can be used as a guide for the sustainable development of China.

The meeting addressed a range of controversial issues: How should income inequality be addressed? How can human rights become integrated into the core business strategies and operations of Chinese companies? By embracing universal values, can China make its economic and business institutions more attractive in order to stem the tide of young Chinese who leave the country to study and work abroad, some never to return?

That such provocative questions were debated in an often self-critical way is indicative of the important political and economic developments that are under way. It also suggests the ways in which China sees initiatives like the Global Compact, in conjunction with its membership in the World Trade Organization, as potential strategic bridges to the global economic system.

Further evidence came at the Global Compact Leaders Summit on 24 June 2004, where a delegation of senior Chinese executives and leaders actively participated in discussions on embedding universal social and environmental principles in business operations and markets. During his speech at the summit, Cheng Siwei, Vice Chairman of the People's Congress, noted that a growing number of chief executive officers in China believe that they have a responsibility to work on behalf of society, and he urged more companies to adopt the Global Compact's ten principles.

As China progresses with its profound transition from a state-controlled economy to a market-oriented system, many Chinese leaders and decision makers are well aware of contemporary criticisms from the rest of the world

related to issues such as human rights, freedom of expression, corruption and environmental degradation.

In this context, some Chinese leaders are concluding that to become truly part of the global economy – gaining international legitimacy and hence the maximum exchange of economic and commercial benefits afforded to other large global contestants – the country and its economic and business organisations must begin to address universal principles.

Engaging the private sector

Recognising this, the chief executive officers of 50 Chinese companies have committed to the ten principles of the Global Compact, with 20 companies joining at a meeting with Secretary-General Kofi Annan in Beijing in October 2004. During this address to assembled business leaders, the Secretary-General stated:

“With the active engagement of the Chinese business community, I am confident that the Compact can serve as a platform to help China pursue economic growth and global competitiveness, while advancing environmental and social responsibility. In this way, it can help ensure that globalisation’s benefits can be shared by everyone”.

Among the newly participating Chinese enterprises are large state-owned companies, including China Unicom and China Railway Engineering Corporation, as well as leading non-state-owned companies such as Huawei Technologies Group, New Hope Group and Chongqing Lifan Industry Group. Companies that previously joined include China Petroleum & Chemical Corporation, Shanghai Baosteel Group Corporation, and Haier Group.

In effort to advance the topic of corporate citizenship in China, the Global Compact will convene a major international conference in November 2005 in Shanghai. The conference will be unique in the sense of bringing together large numbers of leaders and senior executives of both Chinese corporations and foreign companies, in addition to representatives from government and civil society.

Certainly, there is a range of challenges in terms of implementing corporate citizenship in China. Among them: terms such as corporate citizenship or corporate social responsibility (“CSR”) is largely understood as philanthropy, and when it is not, can smack of an indulgent concern of developed

countries. At the same time, transparency is not widely embraced.

Moreover, the ‘rights-based’ lexicon of the international community can also represent a hurdle. As Global Alliance for Workers and Communities, a public-private organisation dedicated to improving working conditions around the world, stated in a study published in April 2004:

“Among Chinese people there is a high sensitivity over the use of the term ‘human rights’. The term ‘workers rights’ is less sensitive but it may be more strategic to avoid the use of a ‘rights-based’ terminology as this tends to alienate people and/or put them on the defensive”.

While the current and fashionable “CSR” trend may not be fully understood or accepted in China, the notion of private enterprise having a social responsibility is not new.

There are other challenges related to confusion over the jurisdiction and implementation of law. The Kenan Institute, based in Washington D.C., observed in a recent report, titled *Corporate Social Responsibility and China*:

“As trade and investment have increased, the Chinese government has taken important steps to develop and broaden the rule of law. However, China lacks basic legal mechanisms, compliance with Chinese labour and environmental laws is often voluntary, and foreign investors are unsure which laws apply when national, provincial, and local laws and regulations conflict. Thus, foreign firms investing in China can often find it difficult to chart a socially and legally responsible course that makes business sense”.

Policy into practice

However, there are many indications that this is the right time for advancing corporate citizenship and sustainable development in China. For one thing, Chinese government officials are demonstrating a greater willingness to

address such problems as corruption, HIV/AIDS, poverty, and environmental deterioration. Equally, Chinese companies are aware the business partnerships with foreign corporations may in the future be based, to some extent, on a commitment to principles and codes. Finally, there is increasing public and media concern within China related to the environment and working conditions, putting some pressure on companies to act. And, indeed, there are inspiring examples by many Chinese companies on which to build:

- A major chemicals and packaging company has initiated a social policy of hiring and training people who have been laid off by large state enterprises and are officially regarded as unemployable.
- An energy company has adopted a “safety first” philosophy that utilises special committees to oversee the design, construction, operation and regular review of facilities to meet safety standards.
- A diversified conglomerate with interests in dairy operations has launched a supply-chain initiative in a poor rural area that has closely linked dairy cow farming, product development and marketing.
- An apparel company has constructed modern high-capacity wastewater treatment plants in southern China where there were no proper water treatment facilities nearby.

It is important to note that while the current and fashionable “CSR” trend may not be fully understood or accepted in China, the notion of private enterprise having a social responsibility is not new. In fact, the roots can be traced back as far as Confucius who advocated that the ruling classes – in government and business – have a moral responsibility to care for the less fortunate. It is not too much of a stretch to imagine current and future generations of Chinese leaders embracing a broader notion of corporate citizenship – as a moral and economic imperative.

ABOUT THE ORGANISATION

Through the power of collective action, the Global Compact seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation. In this way, the private sector – in partnership with other social actors – can help realise the Secretary-General’s vision: a more sustainable and inclusive global economy.

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