iisd2010 20th
Better living for all—sustainably.

Advancing the Sustainability Practices of China's Transnational Corporations

Long Guoqiang,
The Development Research Centre

Simon Zadek,
IISD and Centre for Government and Business,
Kennedy School, Harvard University

Joshua Wickerham,
AccountAbility

March 2010

An earlier version of this paper was published by AccountAbility in April 2009 under the same title.

iisd International Institute for Sustainable Development
Institut international du développement durable
http://www.iisd.org

Advancing the Sustainability Practices of China's Transnational Corporations

Long Guoqiang,
The Development Research Centre

Simon Zadek,
IISD and Centre of Government and Business, Kennedy School, Harvard University

Joshua Wickerham,
AccountAbility

March 2010

This paper is produced as part of the Sustainable China Trade Project. The project is a joint effort of IISD and the Development Research Centre of the State Council of China, with research jointly conducted by Chinese and international experts. It seeks to help define the characteristics of a sustainable trade strategy for China—a strategy that helps contribute to environmental, social and economic improvements, primarily in China but also globally. Such an outcome is in line with the scientific concept of development first put forward at the 16th National Congress of the Communist Party of China in 2003, and with many of the goals of the 11th Five-Year Plan. The project will produce a series of eight working papers focusing on specific aspects of a sustainable trade strategy for China and a synthesized volume covering the body of work. The Sustainable China Trade Project is generously supported by the Swiss Agency for Development Cooperation.

© 2010 International Institute for Sustainable Development

Published by the International Institute for Sustainable Development

IISD contributes to sustainable development by advancing policy recommendations on international trade and investment, economic policy, climate change and energy, measurement and assessment, and natural resources management, and the enabling role of communication technologies in these areas. We report on international negotiations and disseminate knowledge gained through collaborative projects, resulting in more rigorous research, capacity building in developing countries, better networks spanning the North and the South, and better global connections among researchers, practitioners, citizens and policy-makers.

IISD's vision is better living for all—sustainably; its mission is to champion innovation, enabling societies to live sustainably. IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the Canadian International Development Agency (CIDA), the International Development Research Centre (IDRC) and Environment Canada, and from the Province of Manitoba. The Institute receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations and the private sector.

International Institute for Sustainable Development
161 Portage Avenue East, 6th Floor
Winnipeg, Manitoba
Canada R3B 0Y4
Tel: +1 (204) 958–7700
Fax: +1 (204) 958–7710
Email: info@iisd.ca
Website: www.iisd.org

Acknowledgements

We would like to express gratitude to Hans-Peter Egler and Deborah Schmidiger from the Swiss State Secretariat for Economic Affairs for their financial and intellectual support at all stages of this project. We would also like to thank the Chinese Ministry of Commerce, particularly Zhang Xiangchen, and our lead international research partners at the International Institute for Sustainable Development, Mark Halle and David Runnalls.

The London and Geneva study tours were helpful, particularly in exploring the roles of international voluntary standards and the organizations that set the standards. We would especially like to thank those who attended the session on international voluntary standards in London, including Sasha Courville of the ISEAL Alliance, Andre de Freitas of the Forest Stewardship Council, Rupert Howes of the Marine Stewardship Council, Mark Davis of Marks and Spencer, Kan Xi of Principles for Responsible Investing, Nigel Topping of the Carbon Disclosure Project, Joost Martens of Consumers International, Katherine di Matteo of the International Federation of Organic Agriculture Movements, Chen Wu of the Chinese British Business Council, and Yi Shi and Cara Gallen of AccountAbility for organizing. We would also like to thank Bernice Lee and her colleagues at Chatham House. We owe a debt of gratitude to Simon Evenett for organizing a meeting with the Centre for Economic Policy Research and the U.K. Department for Business Enterprise and Regulatory Reform; our thanks also to those who attended that meeting, including Vicky Pryce, Alan Winters, Guy de Jonquieres, Peter Dodd and many others. We would also like to thank Cheng Shuaihua and Ricardo Melendez-Ortiz from the International Centre for Trade and Sustainable Development, as well as all those who attended the research meetings in Geneva, including Sun Zhenyu, ambassador and permanent representative of China to the WTO.

We would also like to thank the research partners on this project, whose tireless efforts to consider China's sustainable trade from all angles have challenged our assumptions and hopefully helped deliver a better sustainable trade strategy. Simon Evenett of St. Gallens University and the Centre for Economic Policy Research, Song Hong from the Chinese Academy of Social Sciences, Li Jian of the Chinese Ministry of Commerce, Aaron Cosbey of IISD, Pan Yue of the Central Party School, Yu Lixin of the Chinese Academy of Social Sciences and Zhang Lipeng of the Development Research Centre. None of this would have come together without the coordination of Zhang Huihui from IISD.

We would last like to thank peer reviewers and those who have helped us think through these issues, including Rolf Dietmer of GTZ's Sino-German CSR Project, Li Weiyang of State Grid Corporation of China, Alistair Monument of the Forest Stewardship Council, Liang Xiaohui of the Chinese Textile and Apparel Commission, Barry Naughton and Susan Shirk of the University of California San Diego, and Zhong Hongwu of the Chinese Academy of Social Sciences.

Table of Contents

1.0 Sustainability, Soft Power and Competitiveness 1

2.0 Globalizing Chinese Business 6

2.1 China's Competitiveness Challenges 6

2.2 China's Internationalization Experience to Date 8

2.3 Competitiveness Strategies Driving Chinese Internationalization 10

3.0 Opportunities, Threats, Strengths and Weaknesses 15

3.1 Opportunities 15

3.2 Threats 16

3.3 Strengths 17

3.4 Weaknesses 18

4.0 Responsible Competitiveness 21

4.1 Sustainable Development and Competitiveness 21

4.2 China's Emerging Responsible Competitiveness 25

4.3 China's Policy Challenge 27

5.0 Sustainability Standards and Competitiveness 29

5.1 Sustainability Standards as a Competitive Advantage 31

5.2 China's Current Stance on Sustainability Standards 36

5.3 Strategic Competitive Framework for Sustainability 40

5.4 Using the Framework 41

6.0 The Next Steps 44

6.1 Policies to Enable and Create Incentives 45

6.2 Knowledge Development 46

6.3 Aligning the Brand 46

7.0 References 48

8.0 Further Reading 54

1.0 Sustainability, Soft Power and Competitiveness

For China to maintain a fast pace of economic growth, it must forge international competitiveness strategies underpinned by increased resource efficiency and harmonious development. This is relevant both internally and in relation to the needs and perspectives of other communities and nations. Chinese business and government roles in promoting sustainable development are increasingly important in the global economy and global trade (Goklany, 1995).[1] Assuring the international community of the consistent and balanced application of the two-fold, interdependent pathway of economic growth and sustainable development requires that China's increasingly visible business community consistently and demonstrably follow such as path.[2] Failure to achieve global recognition of China's commitment to develop sustainably will accentuate the negative and threatening aspects of Brand China, which will in turn lead to restrictions in the scope of China's business community in global markets, thereby limiting China's economic success and its harmonious development at home and internationally.

Credible and demonstrable sustainable development practices are, in short, a prerequisite for China's transition to a role as a major economic and political global player. The Chinese business community must therefore, at minimum, demonstrate compliance with environmental and social performance criteria enshrined in both intergovernmental agreements and the national legislation of those countries in which Chinese businesses operate. But compliance with international and national law, while necessary, is not sufficient for Chinese transnational corporations (CTNCs) to succeed in global markets or for China to establish an acknowledged, benign presence and global role. Beyond these traditional legal frameworks is a more complex and dynamic category of rules evolved on the basis of norms, expectations and interests articulated by a wide variety of global citizens such as consumers, employees, investors and active participants in more formal political processes. These interests are increasingly voiced through blended market signals and political processes that can be unfamiliar and uncomfortable for Chinese business. These blended processes can impact a business's financial bottom line and are also part of a wider evolution of the role of business in society, and thus of the relationship among business strategy, public policy and citizen action. Pascal Lamy, director general of the World Trade Organization (WTO), summarizes the essence of this new trading environment: "Responsible competitiveness…blends forward-looking corporate strategies, innovative public policies and engaged and vibrant civil societies. It is about creating a new generation of profitable products and business processes underpinned by rules that support societies' broader social, environmental and economic aims" (quoted in MacGillivray et al., 2007).

[1] Several publications focus on the importance of sustainable development in specific areas. These include Chinese Academy of Science Sustainable Development Strategy Research Group (2007; 2008).
[2] For a discussion on talent, see Tung (2007).

Many of the rules that Mr. Lamy refers to are non-statutory sustainability standards that have been negotiated between businesses seeking to stabilize their operating environment and civil society organizations seeking "civil regulation" to govern international businesses beyond the scope within which governments are willing or able to legislate (Zadek, 2007a). Governments and other public institutions are often involved, but play convening, mediating and financing roles and do not act as statutory agents overseeing the application of the law. Despite much debate, the WTO Committee on Technical Barriers to Trade has no guidelines on how such voluntary international standards bodies should seek to influence market conditions through non-statutory means (Marinus Huige, chair, WTO Committee on Sanitary and Phytosanitary Standards, Sustainable Trade Strategy Geneva meeting, November 2008). The WTO has so far not reacted to such standards, with some scholars suggesting the WTO and members should create "a norm of leaving 'transnational regulatory space'" for sustainability standard-setting (Bernstein & Hannah, 2008).

Most prominent are those sustainability-related standards developed through the International Organization for Standardization (ISO), including the ISO 14000 environmental standards and the ISO 26000 Social Responsibility Guidelines, the latter of which are currently in development (Conway, 1996). But over the last decade, a new generation of sustainability standards has emerged to cover everything from the global tea trade to extractive industries, carbon emissions, labour standards and sustainable forestry. The institutions that created and often subsequently steward these standards are mostly governed by coalitions of businesses, civil society organizations and public institutions. Because of their growing scale and wide convening power, these standards bodies increasingly play gatekeepers in deciding the legitimacy of international businesses seeking to operate profitably in global markets (Litovsky, Rochlin, Zadek & Levy, 2008). For example, accessing consumer markets, especially higher-value segments; purchasing premium-branded foreign companies; and securing natural resources or international capital through public listings or private equity all depend in no small part on a company's ability to demonstrate its visible support of and adherence to these bodies' standards. And many of those standards have moved out of the margin into the mainstream of global markets. Forestry, fisheries, textiles, mining, pharmaceuticals, finance and chemicals are but a few of the sectors that now embed such standards in the heart of their respective international markets in pursuit of one or another aspect of sustainability.

Voluntary sustainability standards, often developed and stewarded by business with civil society, labour organizations and the state, are in this sense a primary route through which businesses and the nations they are associated with exercise "soft power" in global markets in pursuit of international competitiveness and broader societal goals.

This paper focuses on how CTNCs can best engage in these "soft" dimensions of international operations, and specifically on how to deal with voluntary sustainability standards in securing competitiveness in global markets and fulfilling China's broader policy aims. The "harder"

dimensions of China's competitiveness, such as finance, information, technology and infrastructure, are perhaps better researched and understood, and are clearly necessary enablers of success in international markets and in furthering sustainable development objectives. However, the softer dimensions and, crucially, their relationship to the harder dimensions are less well-understood, not only for their potential for enhancing competitiveness, but also for their potential restrictive impacts.

Most Chinese businesses currently choose the path of avoiding adherence to voluntary sustainability standards. In many instances Chinese businesses see these standards as inappropriate or difficult to adopt, given the residual markets open to Chinese latecomers. For the most part, however, most Chinese businesses do not engage because of unfamiliarity with the rules of the game, weak networks with the relevant organizations and a lack of guidance from the Chinese government, especially in the case of state-owned enterprises. Furthermore, these initiatives are perceived by Chinese businesses as barriers to entry to global markets (see, for example, Xing, n.d.). And indeed, while generally not designed to prevent a new generation of emerging-nation businesses from establishing themselves as global players, these standards have been developed and are in the main stewarded by Western businesses acting with largely European and North American civil society organizations and public institutions. So while seeking, for example, to protect workers or forests, or to reduce drug prices in poorer communities, standards systems are in practice dominated by incumbent institutions and, ironically, could become—or in some cases may already be—actual impediments to sustainable development.

Emerging-economy companies from nations other than China are increasingly gaining knowledge and overcoming suspicion about voluntary sustainability mechanisms and the organizations behind them. For example, Bolivia offers key lessons with its 12 years of using the Forest Stewardship Council standard to enforce its mandatory legal forest management, motivated by robust and credible verification, access to new markets and reputational gains (Carey, 2008a). The island of South Georgia works with the Marine Stewardship Council to certify the sustainability of its fish products, largely in response to an international campaign by international NGOs that effectively convinced U.S. restaurants to stop serving fish from this region (Carey, 2008b). Increasingly, some emerging-economy companies are becoming players in the design of new sustainability standards, notably in the case of the ISO 26000 standard, but also in the field of sustainability reporting and assurance through their engagement in the development and promotion of the Global Reporting Initiative's G3 Sustainability Reporting Guidelines and AccountAbility's AA1000 Sustainability Assurance Standard. Chinese businesses are, however, at a significant disadvantage in comparison with their emerging-economy competitors in this regard. Compared, in particular, to companies in Brazil, India or South Africa, Chinese businesses lack experience domestically in engaging with civil society, creating active community partnerships that go beyond philanthropy in shaping market conditions.

Overall, avoidance of engagement in standards initiatives is not a considered a strategic option but a default. As a result, Chinese businesses often automatically adopt immature strategies for themselves and China's broader good.

China's global prominence requires that it make clear and visible decisions as to how to deal with sustainability standards. But a decision whether to engage in any specific standards initiative must be informed by a broader strategic framing that places each initiative in relation to one of three possible pathways that China pursues in aligning its approach to sustainability, economic growth and associated competitiveness drivers:

- *Normalization (compliance)*, where it serves China's interest to comply with prevailing sustainability standards, indicating a strategy of engagement on terms already established in international markets.
- *Exceptionalism (opting out)*, where China's optimal strategy is, in the short or longer term, to avoid compliance with prevailing international standards, relying instead on its own standards tailored to its own needs and preferences.
- *Transformation (engaging and influencing)*, where China's interests are best served by seeking to reshape international sustainability standards, whether by becoming active participants in existing initiatives or by promoting alternatives as new international norms.

In other words, China's response to specific sustainability standards should not be based on preconceived judgments, but should be a response to each standard according to its merits, in relation to one or more of these pathways.

In this paper, we conclude that

- Sustainability standards are a means of offsetting competitive disadvantages or creating competitive advantages when businesses and nations such as China choose to develop more sustainably.
- Chinese businesses, supported by enabling public policies, will pursue varied approaches among differing standards, but over time will become a force in shaping the next generation of sustainability standards in global markets as a competitive strategy aligned with China's broader interests.
- Becoming such a force requires deeper understanding and engagement in existing standards initiatives and the players behind them, and a more prominent Chinese role among the communities that have developed and now govern the initiatives.

We set out practical means for realizing this last step as both strategic options for businesses and policy options for the Chinese government. The paper has been organized into the following sections. Section 2 briefly outlines salient aspects of the broader historical and policy context of CTNCs. Section 3 summarizes major opportunities and threats facing the Chinese business community as it emerges onto the world stage. Section 4 discusses "responsible competitiveness" and the place of sustainability standards in global markets. Section 5 presents a framework for strategy and policy by analyzing specific sustainability standards, and Section 6 draws broad conclusions and gives specific recommendations.

The significance of this topic for China and the global community cannot be overestimated. China's development will require access to technology and raw materials, as well as the continued will of the international community to maintain open markets for China's products, services and international investment flows. Sustaining this will require factions of the international community to overcome perceptions of a "China threat." This in turn requires that Chinese business engage fully in advancing a more responsible competitiveness. For China and the broader global community, the increasingly apparent weaknesses in intergovernmental, multilateral frameworks pose huge risks to the world's efforts to secure a sustainable development path for one and all. Sustainability standards developed by state and non-state actors are essential to overcome both this governance failure and the inability of the capital markets to provide adequate market-based solutions.

2.0 Globalizing Chinese Business

> "Competition between MNCs [multinational corporations] has already transformed from hard competitiveness to soft competitiveness, from simple reliance on technology and product competitiveness to reliance on concepts like CSR [corporate social responsibility] and social ethics. Advanced corporate responsibility ideas and practices already constitute the heart of business competitiveness."
>
> —*Wei Jiafu, President, China Ocean Shipping Company (COSCO, 2007)*

2.1 China's Competitiveness Challenges

CTNCs are becoming a major influence on China's next stage of development. The formative stages of this development occurred over the last three decades, which witnessed the growing importance of Chinese businesses accessing global markets by exporting domestic production, taking advantage of China's underlying cost advantages but also constrained to this strategy by the country's severe foreign exchange shortages. Since the late 1980s, however, China's situation has shifted to one characterized by both excess production capacity and growing foreign exchange reserves. These factors, combined with a growing unwillingness of communities around the world to absorb an ever-increasing flow of "Made in China" products despite corresponding consumer gains, have underpinned a "go global" strategy of Chinese businesses investing abroad, first articulated explicitly by the Chinese government in 2001.[3]

In short, China's pace of economic development would be difficult if not impossible to sustain without an effective "go global" strategy to gain improved access to international markets, technology, raw materials and talent. At the same time, actual or perceived threats to employment and apparent links to falling real incomes of lower-income communities in Europe and North America have combined to create unfavourable circumstances for maintaining exports as the primary growth engine. Fluctuating commodity prices compound China's pain, as does the basic fact that nominal wages are increasing in Chinese principal economic regions, and the effects of real wages in the composition of export product costs are also increasing while, simultaneously, the Chinese yuan appreciates against the currencies of China's major trading partners and competitors.

China's challenge—and imperative—is to move up the value chain, increasingly capturing a greater portion of total product value through deepening engagement in research and development, ownership of intellectual property, upgrading labour value-added through the application of greater

---

[3] Additional studies and notes on the history and effects of China's "go global" strategy can be found in Zhang, K. (2005a). A second study was done by the Foreign Advisory Service and the Multilateral Guarantee Agency, in collaboration with the University of Beijing and the World Bank (Battat, 2006), and a third study was completed by the IBM Institute for Business Value (Beebe, Hew, Yueqi & Dailun, 2006). Accenture (2005) provides other examples.

technical and managerial expertise, and securing a higher proportion of brand value through brand acquisition and development. Such moves, while essential, come with risks. Notably, domestic employment growth, particularly at the unskilled levels, has to be sustained at the same time as unskilled labour value-added falls as a proportion of exported value.

Furthermore, the conditions for competing effectively in premium markets require that the reputation of individual Chinese companies and the broader Brand China be aligned. Achieving this reputation lies in part in areas of traditional business excellence, such as technical features, product quality, and effective marketing and distribution. However, an aligned reputation also requires that broader expectations be addressed, in particular the discerning attitudes toward social and environmental issues increasingly prevalent in premium markets. This need is all the more important where Chinese business strategies require partnerships with existing global businesses seeking to protect their own premium brands, access to international capital that discounts opportunities in the face of social and environmental risks, or the mobilization of global talent to build expertise and secure long-term competitive advantage in knowledge-driven markets.

Securing reputations aligned to premium market expectations requires, however, considerable investment in improved conditions of production and distribution, both at the enterprise and governmental levels. Such investments not only require considerable resources but also must develop along with existing enterprises whose competitiveness will for some time continue to depend on low-cost factors of production, including labour and environmental resources, both for domestic production and for accessing, for example, natural resources in Africa, Latin America and elsewhere in Asia. To some degree, premium reputations can be individualized to specific enterprises. Increasingly, however, they are "collective" in their nature. Diageo, the world's leading alcoholic-beverage company, has sought to advance "responsible marketing" practices across its industry, believing the industry has a collective reputation that it must protect to secure its own freedom to operate. National business communities face similar concerns; U.S. businesses suffered collectively in the face of the collapse of WorldCom and Enron. Capital markets imposed a risk premium, in turn driving the enactment of the Sarbanes-Oxley Act, which has since imposed significant costs on all enterprises based in the United States. Similarly China's own reputation, and in turn foreign consumers' confidence in Chinese products, has suffered because of product- and food-safety scandals.

China's challenge is therefore to pursue a strategy for securing a greater portion of value-added in global markets while not undermining the existing generation of Chinese enterprises that are needed to sustain existing employment and absorb the huge annual numbers of low-skilled entrants into domestic labour markets. Crucially, strategic choices and decisions aimed at sustainable development and meeting the challenges of securing sustainable trade need to be formulated with a very clear understanding of this context.

2.2 China's Internationalization Experience to Date

The Chinese business community is already well into the "go global" phase, increasingly focused on establishing international operations both as a means of bypassing growing restrictions to trade and also as a means of upgrading technologies, establishing global brands and accessing raw materials. By the end of 2006 China's non-financial investments totalled US$73.33 billion, spread over more than 160 countries.

Table 2.1 Trade distribution of Chinese overseas investments through 2006

Industry	Value (million US$)	Proportion of trade (%)	Main Trades
Business services	194.6	21.5	
Mining	179.0	19.8	Mining and selecting of petroleum, natural gas, ferrous metal and non-ferrous metal
Finance	156.1	17.2	
Wholesale and retail	129.6	14.3	Import and export trade
Transport and communication; storage and postal services	75.7	8.4	Water and air transport
Manufacturing	75.3	8.3	Communication equipment, computer and other electronic equipment, textiles, transport and communications equipment manufacturing, medicine manufacturing, ferrous metal smelting and pressing, non-ferrous metal smelting and pressing, electrical equipment, machinery and apparatus manufacturing
Real estate	20.2	2.2	
Architecture	15.7	1.7	
Information transmission; computer services; software	14.5	1.6	Telecom and other information transmission service industries
Resident and other services	11.7	1.3	Other services
Technical service and geology surveying	11.2	1.2	Professional technology services
Water conservancy, environment and communal utility management	9.2	1	
Agriculture, forestry, animal husbandry and fisheries	8.2	0.9	
Others	5.3	0.6	

Source: 2006 Statistical Bulletin of China's Outward Direct Investment

Sectoral characteristics. Chinese overseas direct investment touches upon regional trade, production and value-added, resource development, transportation, contracted engineering, agricultural production and related development, healthcare and sanitation, tourism, hospitality consulting and other services. Of these, business services, extractive industries, and wholesale distribution and sales account for 70 per cent of investment. In 2006 the flow of investment in extractive industries and business services accounted for 40 per cent of total overseas investment.

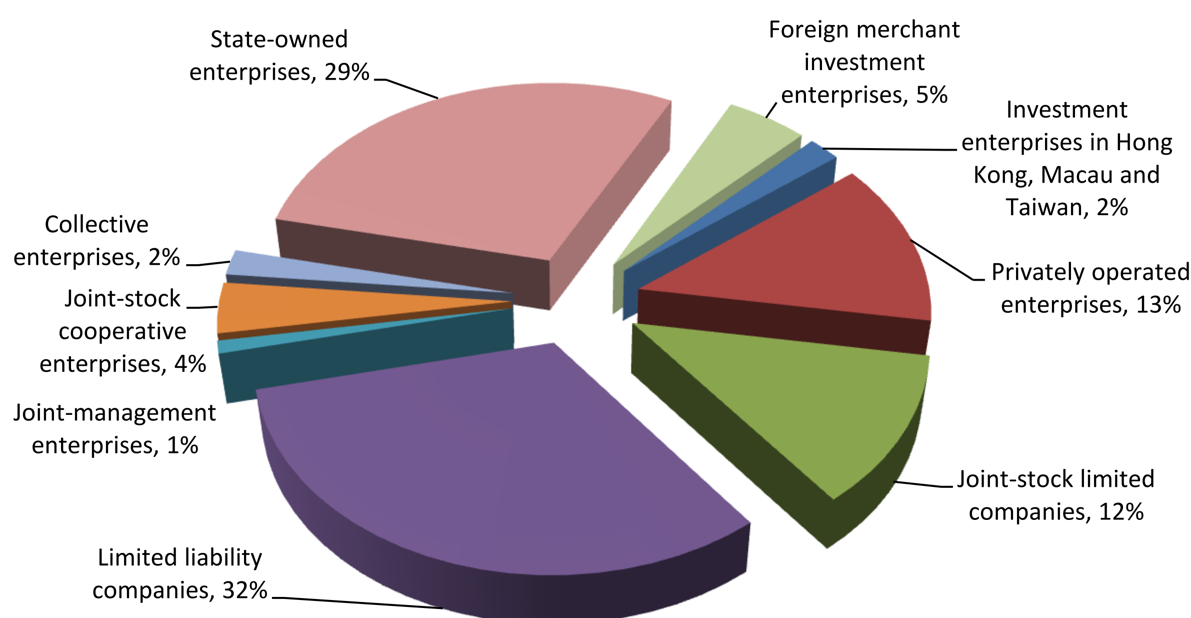

Figure 2.1 Distribution of Chinese foreign investment through 2005

Ownership. Chinese overseas direct investment is being undertaken by private and public enterprises. Large companies such as CNPC, Sinopec, COSCO, Sinochem, Haier, Kangjia, China Construction, New Hope Group, Wangxiang Group, Zhongxing, Huawei, Huafan, Chuangwei and TCL are leading the way, demonstrating strong ability to open new markets. Private and limited liability stock companies based in provinces such as Guangdong, Fujian and Zhejiang make up the majority of foreign-invested companies. Small and medium-sized enterprises, while expanding internationally, make up only a sliver of overall overseas investment.

Investment diversity. Chinese overseas investment has transformed over the last two decades from being mainly trade based to now focusing largely on manufacturing and production. China's transnational businesses today can be divided into four primary groups: (1) professional trade

companies, (2) industries with specific strength in manufacturing, (3) overseas finance companies, and (4) international construction and engineering companies.

2.3 Competitiveness Strategies Driving Chinese Internationalization

CTNCs invest abroad and acquire foreign companies for four main reasons:

- *Expanding market access.* Opening up international markets is without a doubt the main motivation for Chinese overseas investment. Chinese companies, through buying or investing in factories, gradually create ways for China to gain the necessary experience in international distribution channels. For example, TCL, through purchasing the French company Thomson, became the world's biggest producer of televisions and in one stroke acquired massive distribution channels in Europe and North America. Lenovo Group, by buying IBM's personal computing division, did the same in North America. Overseas investment brings export opportunities, and, according to World Bank statistics, from 2000 to 2004 Chinese overseas investment resulted in exports of equipment, preassembled parts and other materials from China worth over US$75 billion. According to Chinese Ministry of Commerce figures from 2004, the income of Chinese subsidiary companies reached over US$148.7 billion that year. More importantly, China has made great strides in developing international distribution channels in this relatively short time, resulting in shared benefits with downstream service industries as well as even more opportunities.

- *Securing natural resources.* Chinese companies have already made long-term energy and resource investments in more than 30 countries, including Russia, Kazakhstan, Saudi Arabia, Sudan, Australia and India, and have made great breakthroughs in long-term cooperation with Western Europe, North America, South Africa, the Middle East and Southeast Asia. For example, CNPC acquired Canada's PK Petroleum Company, while the CITIC Group invested in Canada's Nations Energy Company Limited and bought 94.6 per cent of the rights to Kazakhstan's Karazhanbas oil fields. Chinese companies also have overseas investments in steel, copper, aluminum, chromium, zinc and other types of minerals. In 2005 China imported 127 million tonnes of oil and 280 million tonnes of iron ore, of which 20 per cent was owned by Chinese companies. Additionally, Chinese companies have had success gaining rights to forest materials and fisheries industries.

- *Upgrading technology.* From a developing-country perspective, improving technological innovative capacity is a major motivation for overseas investment. By buying overseas industries or building overseas research centres, Chinese companies are creating new sources of technology development and improving their own technical capabilities. For example,

Shanggong Group's purchase of the German company DA, which was ranked third globally in industrial sewing machines, gained it global levels of technological sophistication. In 2003, by purchasing the thin-film transistor LCD business of a modern Korean enterprise, BOE greatly increased its own competitive power in this rising industry. Huawei established research centres in Sweden, Russia, India and the United States, among other places, and uses these global research resources to increase its core R&D competencies. Small and medium-sized enterprises, also through foreign investments, have improved their ability to innovate; for example, in the case of Siwei Johnson Company, which became a leading bank note transport company after merging with the United Kingdom's Johnson Company.

- *Establishing brands.* Chinese companies have achieved considerable improvements through overseas investment, such that their international brands and competitiveness grow stronger by the day. In 2005, 16 Chinese companies were in the Fortune Global 500. Now, 49 Chinese companies rank among the world's largest 225 international contracting firms. Haier, Lenovo, Quidway, ZTE, TCL, Hisense and Wanxiang are all maturing CTNCs with growing global brands.

In addition to these four core commercial reasons, the Chinese government has also encouraged international investment as part of its own foreign policy, related to the spread of Chinese government aid abroad, to actively bring about corporate social responsibility (CSR) and develop win-win relationships between China and other countries. For example, the government encourages Chinese companies to share and use suitable technology in host countries and to strengthen manufacturing and bring about employment opportunities there. Chinese companies help host countries exploit resources and to quickly shift from being import oriented to export oriented, thus increasing the host country's foreign earnings potential. With mutually beneficial relations, this not only makes corporate globalization more effective but also improves China's relations with the host country. Foreign investment becomes a more and more important method for China to develop and improve relations with developing countries.

Investment priorities

- In transitional economies, establish factories and facilitate entry into European markets.
- In Europe and the Americas, buy companies with brands and sales channels.
- In areas with large domestic markets favourable to spreading investments in developing countries, aim to develop markets within the countries in which investments are being made.
- Use developed markets that have special trade arrangements or a generalized system of preferences with low costs for setting up factories as a base for developing markets. (For example, invest in Mexico and enter North American markets.)
- Create sales networks. For traditional-style Chinese investment- and trade-oriented industries, spur Chinese exports. In burgeoning markets like Russia, firms can consider investing in or establishing chain stores and retail sites, such as large-scale supermarkets. In mature markets, companies should consider purchasing companies that already have distribution networks.

The World Bank provides an overlapping but distinct perspective on CTNCs, dividing ownership of these companies into the following categories:

- Large, resource-seeking state-owned enterprises fulfilling national goals with few cost considerations.
- Non-resource-seeking state-owned enterprises following the "go global" strategy.
- Publicly listed companies following stakeholder interests.
- Large or small private companies, such as Huawei, pursuing entrepreneurial and corporate strategies.
  The World Bank also uses a "strategic intent" methodology to categorize CTNCs by the goal of their investments:
- Firms such as Lenovo, Huawei and Haier, focused on global expansion and domestic dominance.
- Companies such as Nanjing Automotive, looking to offset competitive weaknesses.
- Domestically oriented firms looking to compete with foreign multinational corporations in China.
- Trade-oriented firms, such as Sinochem and Minmetal, that seek trade gains in the short term and possible production gains in the long term.
- Niche-market players that seek to expand in a certain market (Rui & Yip, 2008).

Taking these categories together, we can conclude that Chinese enterprises are likely to pursue one or more of the following international investment strategies as a means of enhancing international competitiveness and profitability:

Market-opening investments. Companies pursuing this category of investment often have large domestic production scales, relatively stable core technology, highly labour-intensive production and fierce market competition in manufactured products. For example, for products such as household appliances, textiles and apparel, and toys, where China has the greatest comparative advantages, Chinese foreign investment is key. Similarly, large-scale retailing companies are the vanguard of China's key foreign-invested service industry.

*Resource-seeking investment*s. Resource- and energy-sector investments or high energy- or resource-consuming companies focus on resource acquisition. Investments in energy include petroleum and natural gas extracting industries, forest resource industries, mining and coal, while resource-consuming companies include oil refining, steel processing, forest-product processing and similar industries. The former should focus on resource-rich countries, both stressing the host country's cooperative prospects and focusing on purchasing methods to acquire new resources. It is important to judge primary-grade products' long-term international price fluctuations and avoid price hazards, paying attention to dealing properly with host country governments and striving to achieve their support. Companies should pay special attention to relations with the media, civil society groups and competitors in international markets. Many host countries do not share China's stable governance system. Thus, companies must cautiously consider the host country's political situation and avoid country hazards, paying particular attention to political stability, harbour access and the investment environment for primary-material processing. Companies should consider ways in which investments help host countries' economic development and employment, assure domestic resource supplies, and spur sustainable development.

Innovation-seeking investments. For companies with strong manufacturing ability and weak research and development, such as those in the information technology, machinery and chemical sectors, the most important goal should be gaining technology and R&D capacity through foreign investment, combining this with Chinese domestic manufacturing capability and thereby raising domestic manufacturing levels and competitiveness. The most important methods are to create R&D centres, like the cluster of IT companies in Silicon Valley, to bring together technology, information and technical human resources; buy technologically oriented small and medium-sized enterprises in developed countries and coordinate their technical ability with domestic manufacturing capacity; and establish joint ventures with companies oriented to research and development.

Efficiency-oriented investments. Efficiency-seeking foreign investment accounts for a very low portion China's total foreign investment. With China's emphasis on low-cost production, and with the rapid increase in Chinese labour costs, some labour-intensive Chinese sectors will inevitably move to countries that simply have lower manufacturing costs. Others will seek other traditional efficiency-oriented gains from trade. When doing so, companies selecting countries to invest in should first pay

attention to having good political relations. Second, the country should have a good, low-cost investment environment. Third, the company should enter the host country through cooperative relationships and technology transfer, improving government and business relationships. Fourth, the country should have signed trade agreements with China to protect investments and avoid taxes. Finally, especially for small and medium-sized enterprises, the country should support the construction of overseas economic and trade cooperation zones, which can be beneficial in reducing small and medium-sized enterprises' foreign investment risks.

3.0 Opportunities, Threats, Strengths and Weaknesses

Chinese enterprises face significant competitive challenges, as well as opportunities. These vary considerably over relatively short periods of time. For example, they vary significantly depending on prevailing economic and political conditions, sector, and ultimately the specific enterprise. Despite this diversity, it is worth spelling out some of the prevailing opportunities and challenges facing CTNCs before overlaying the sustainability challenge.

3.1 Opportunities

Systems that open global markets to international investment are constantly improving. A basic enabling framework is provided by the multiple systems negotiated during the Uruguay round of the WTO Agreement on Trade-Related Investment Measures. Regional integration is unfolding, and there are already 200 free trade areas with cooperative systems, which greatly advances the system of international investment. Although countries such as the United States have recently strengthened security checks for foreign direct investment, on the whole, the foreign direct investment rules around the world are increasingly friendly. According to statistics from the United Nations' *World Investment Report*, about 80 per cent of policy adjustments have been beneficial for foreign investment (United Nations Conference on Trade and Development [UNCTAD], 2008). CNTCs increasingly operate globally within a framework developed by the Chinese government, which now includes bilateral trade committees covering 178 countries, 117 bilateral investment-protection accords and a range of associated intergovernmental agreements covering everything from mutual tax avoidance to social security agreements (UNCTAD, 2008).

Several trends in global cross-border investment have emerged recently. Research and development is globalizing, and changes in developing countries' foreign investment are coming to the fore. In 1998, 29 developing-country companies were in the Fortune Global 500, compared with 47 today (UNCTAD, 2008, Annex table A.1.8). Also notable is that investment of US$5 trillion or more reached developing countries. Especially from 2005 to 2006, India and China's foreign investment nearly doubled. Of the 100 largest developing-economy companies, 78 are from Asia and 11 are from Latin America. Of those, Hong Kong (China) has 25, with 10 operating mainly in mainland China (UNCTAD, 2008, p. 29).

Finally, China's international investment opportunities have been accelerated by its growing foreign reserves, which reached US$1.9 trillion in the fourth quarter of 2008. Indeed, Chinese companies have been encouraged to make use of these reserves for international investment, especially in the light of the internationalization of the domestic market, which has led to Chinese companies facing ever-stronger competition from foreign firms. The competitiveness of Chinese firms in tomorrow's markets will increasingly depend on the scale and quality of their overseas investments.

3.2 Threats

Chinese companies face considerable threats in their efforts to scale up their international investments. Overseas, Chinese firms often face disadvantages as latecomers to many markets. For example, China's most recent foreign investments have been heavily focused on acquiring energy and resources. Yet investment opportunities in lower-risk host countries have, in the main, already been locked in by developed-country multinational corporations, leaving Chinese companies with the options of either buying resources at a higher price from these companies or investing in countries or areas with greater risk, thus facing higher risks than other countries' multinationals. Moreover, there is no doubt that Chinese companies have and continue to face many barriers erected by potential host countries to entering these new markets.

Increasingly open avenues for cross-border investment should facilitate favourable conditions for Chinese overseas investors. But for many reasons, when Chinese companies invest internationally, they face discrimination. This is particularly the case in the United States, where, for example, CNOOC's US$18.5 billion bid for Unocal, Haier's bid for Maytag or the 2007 attempt by Huawei to buy 3Com were all thwarted by a combination of negative U.S. public and political opinion. CTNCs face unusual scrutiny as potential foreign investors. U.S. Securities and Exchange Commission chairman Christopher Cox pointed out that Chinese state-owned enterprises in particular face the hurdle of answering the question, Will the behaviour of this company be motivated strictly by economic considerations of profit and loss? Or will it instead be driven by political considerations? (Cox, 2005). Likewise, international political and civil-society groups attempt to thwart Chinese bank and mining industry activity on similar political grounds—that they "just don't know" what criteria Chinese firms are using to finance loans or ensure social or environmental criteria, leading to ethical questions as well as questions of financial security (Newton, 2006). National oil companies, in particular, face skepticism about whether they're part of government agencies or acting on behalf of governments or according to government policy, or whether they have political or geopolitical objectives (Xu, 2007).

These internal threats are exacerbated by the lack of knowledge and basic information available to CTNCs through traditional sources, such as the Chinese government's foreign investment management and service systems. After years of reform, the Chinese government's overseas investment management system has improved considerably, but still does not accord with firms' current overseas investment management needs. Some of the information needed is fairly basic, for example, concerning tax law, corporate governance or basic risk areas across diverse potential investment target countries. But these government institutions are not well-suited to providing the more nuanced types of knowledge and expertise concerning culture, norms of behaviour, and who to make friends with and how. This of course is a central issue, to which we will return in our discussion of sustainability standards.

3.3 Strengths

Chinese overseas investors have many strengths. First, Chinese companies have relatively strong manufacturing capabilities, with China's manufacturing and value-added manufacturing gross value representing a much higher proportion of the economy than in other countries. China has 170 product types that rank as the highest output in the world. In 2006 industrial products made up 94.5 per cent of exports. China's 774 categories of product exports stand at number one in the world and make China a key product manufacturing and export country. Chinese companies have attracted top equipment. Product quality is generally quite high, and because of the high performance-to-price ratio in international markets, the proportion of Chinese goods in those markets has continued to grow.

Second, the Chinese can control costs. Chinese products have been successful because of low prices due to relatively low Chinese cost factors, such as labour costs that are much lower than in developed countries and productivity rates that are higher than in most other developing countries. Salary levels for mid-level R&D staff are still between one-eighth and one-tenth of those in developed countries. Chinese companies engaged in overseas investment are entirely capable of combining technological ability and low costs to pursue opportunities in developed markets that strengthen Chinese companies' competitiveness in international markets. The Chinese Ministry of Commerce's survey of several hundred foreign enterprises reveals that low costs are seen as one of China's great overseas investment strengths.

Third, Chinese companies have a relatively strong ability to attract technology and learn. Chinese companies' technology levels are still lower compared to cutting-edge international technology levels, and thus Chinese companies must attract new foreign equipment and technology to improve their own technology levels. In this process, Chinese companies have made gains by paying attention to the best management experience and technology innovations, clearly increasing their management levels and R&D capacity. Chinese companies show relatively strong research ability, but poor ability to bring this to market. Through overseas investment, they will be able to continue strengthening their R&D capacity and management levels, and to quickly improve their overall technology and management levels. This emphasis on research and development correlates with the success identified by the Boston Consulting Group's analysis of "global challengers," which emphasizes the importance of research and development but does not explore how companies use voluntary standards and other networks or "clubs" to access international markets (Sirkin, 2007).

Last, Chinese companies have the advantage of a vast domestic market. China has already become the world's fourth-largest economic system and third-largest import market, with an immense domestic market scale for Chinese companies to master their own innovative and branding bases. With regard to resource development, China has a large domestic market for overseas resources.

Domestic market scope helps encourage collaboration among Chinese and non-Chinese companies. Some resource-exporting countries welcome Chinese companies to exploit their resources. Some foreign countries are also willing to work with Chinese companies because of the attraction of China's domestic market.

3.4 Weaknesses

Chinese companies, in the main, lack overseas investment experience and international operations personnel. Chinese companies have only just started large-scale investments abroad and thus lack experience. Many companies understand very little about the laws, markets or business customs of countries that are investment destinations. At the same time, China lacks government and intermediary group information services, and many Chinese companies make rash decisions about international investments because they lack systematic analysis of professional organizations. After making overseas investments, Chinese companies face difficulties attracting international management talent and effectively coordinating domestic with international resources. Still, some companies with successful overseas operations, such as Lenovo, have effectively localized management talent. Research indicates that CTNCs lack comprehensive risk-management systems, and the World Bank reports that one-third of Chinese foreign joint ventures end in failure, with 85 per cent of managers listing management as the main cause (Bellabona & Spigarelli, 2007). Leading Chinese companies like COSCO have implemented comprehensive risk-management systems linked to third-party assurance and internationally recognized standards like the AA1000.[4]

Chinese companies' R&D ability is also relatively weak, lacking internationally competitive brands and international channels. Technological innovation in Chinese enterprises is not based on their own ability to research and develop, but is reliant on their ability to attract technology and equipment. Still, many large- and medium-scale enterprises have their own R&D departments, but Chinese corporate R&D expenditure still stands as a low percentage of revenue compared with international levels. The ratio of research and development to income has been as low as 0.76 per cent. In comparison, many multinationals' R&D expenditures stand at 8 per cent. Still, in 2005 Chinese large- and medium-scale industrial companies spent US$125.03 billion on research and development, a 31 per cent increase from 2004.[5] One World Bank report emphasizes how global competitiveness hinges on the ability to create and use technology: while China is good at processing technology, it lacks strong indigenous innovation capacity—India appears stronger—and China's R&D productivity is weak, as are links across government, business and university R&D institutions (Zeng & Shuilin, 2007).

[4] Comments by COSCO's risk-management manager, Ma Xinying, at the launch of the Chinese version of the AA1000, December 2008.
[5] For a comprehensive view of knowledge-economy-related issues facing Chinese firms, see Zeng and Shuilin (2007).

Furthermore, Chinese companies' governance structures await improvement, as operations are not sufficiently up to standard. China is a developing country, so some state-owned enterprises, whether facing inadequate supervision by principals or bureaucratization through their leaders' fixed-term appointment system, can face short-termism, with the result that education about investment in long-term profit-making activities such as research and development, branding and accessing international channels lacks vigour. This is true especially as it relates to international investment, where inadequate inspection and control of foreign-invested subsidiary companies can bring about hazards. Private firms are mostly run through clan network–style management systems, which do not suit multinational operations. Domestic market environments are not perfect. These issues, combined with non-standard operating procedures, can extend into host countries, where they can harm Chinese companies' ability to make long-term profits, cause disputes and harm the companies' images. Additionally, Chinese firms often focus too much on short-term profits, have a reputation for telling customers what they want instead of listening, lack a focus on quality and design (Harris & Moure, 2008), and are learning—through experiences like the recent milk scandals—that bad publicity can sour a brand forever.

Chinese cross-company cultural integration also needs to be strengthened. Buying foreign multinationals is increasingly the main vehicle for outward-facing Chinese investment, and a deciding factor for success is whether CTNCs can coordinate their resources to bring together new competitive advantages. From a global perspective, after-purchase integration success rates are not high. Chinese enterprises currently lack the international operational experience, human resources and cross-cultural coordination for post-purchase relations to work effectively, and thus they need to actively explore new methods. Research indicates that CTNCs lack comprehensive risk-management systems, and the World Bank reports that one-third of Chinese foreign joint ventures end in failure, with 85 per cent of managers listing management as the main cause (Bellabona & Spigarelli, 2007). These same companies often do not know how to work in more mature markets' tax, distribution and legal environments or across cultural or linguistic differences. Leading Chinese companies such as COSCO make extensive use of experts and consultants to implement comprehensive risk-management systems linked to third-party assurance and internationally recognized standards such as the AA1000.[6]

Finally, Chinese enterprises need to raise their guard against investment risks. Overseas investment carries political, legal, and business risks. Keeping a watch on overseas investment hazards is crucial. When Chinese companies invest abroad, large hazards abound, springing from the lack of investment-bank assistance, shallow understandings of host-country laws and markets, incautious decision-making and, moreover, the high hazard of unstable political systems. The burning of Chinese shoes in Spain, workers' strikes in Latin America and Africa, and incidents in East Asia of

[6] Comments by COSCO's risk management manager Ma Xinying at the launch of the Chinese version of the AA1000, December 2008.

attacks against Chinese, without exception lay bare the problem of the low ability for Chinese companies to manage overseas crises.

4.0 Responsible Competitiveness

> The evidence is there to support the proposition that Environmental Safety and Governance (ES&G) risks are material to the performance of a company in our portfolio over the long run and that clients across all sectors and all markets that manage these risks will perform better from a credit perspective. This powerful data is what is driving our sustainability approach.
>
> —International Finance Corporation ("Ask the experts," 2006)

4.1 Sustainable Development and Competitiveness

Sustainable development is becoming a material factor in the competitiveness equation of companies and nations. The reasons for this are many, and the weight of each argument varies considerably over time, geography, market segment and sector. The implications for business are ultimately universal and profound, but are complex and contingent for any specific sector, market or enterprise. Businesses recognize that climate change affects financial performance, especially in sectors most affected by severe drought, rising sea levels and fierce storms, but also that a business opportunity exists making money anticipating a low-carbon economy (MacGillivray et al., 2006).

Many sustainability issues could have economic importance for businesses. Carbon emissions might count because of mitigation costs associated with regulatory enforcement or opportunities linked to clean development mechanisms. Labour standards, similarly, might count because of the threat of reputation damage associated with brand-linked negative media or because of the productivity gains that come with the improved labour-management relationships needed to satisfy the needs of just-in-time supply chain management. Sustainable water management might count because it enables beverage companies to gain licences to access community water resources, and demonstrable honesty in all transactions might create the conditions for technology licensing or reduce the costs of capital on international markets.

Sustainability counts

- *Products and services* can feature sustainability to meet changing customer expectations, regulatory demands and the potential cost-efficiencies and productivity enhancements that can be derived by embracing social and environmental factors.
- *Labour markets* are where more-talented and sought-after employees are increasingly taking account of the alignment of their employers' interests and actions to their own values.
- *Financial markets* are where investors are increasingly concerned about the downside risks of getting sustainability wrong and the upside opportunities that can be realized by smart companies and dynamic and forward-looking nations and communities.

Chinese companies such as the China Ocean Shipping Company, the winner of many United Nations Global Compact awards, are leaders globally. SASAC's guidelines on state-owned enterprise CSR implementation and the Ministry of Commerce's draft guidelines on CSR implementation for foreign-invested enterprises also signal the importance of this concept to China's future competitiveness.

With rising awareness of these shifting patterns has come a new generation of innovative business strategies and practices that deliver profits from more responsible behaviour. At minimum, they protect companies' reputations and brands, reducing the risks of consumer boycotts, recruitment bottlenecks in the face of bad press, or restricted or more expensive access to capital. Beyond this, companies have enhanced productivity through improved working conditions and driven product innovations by engaging with communities and better understanding their issues and needs. Global leaders like General Electric have built multi-billion-dollar businesses offering energy-efficient products, and last year British consumers alone purchased around US$60 billion worth of goods and services marketed with ethical virtues such as child labour prohibitions, human rights protections and arms control.[7]

Although it is too early to see the full effects of these new business models and markets, some analysts make a clear case for social and environmental considerations. Company-level rankings like the Accountability Rating, or performance-aligned stock exchanges like the Shenzhen Taida Index, provide tools for analyzing the financial performance of companies against social and environmental concerns (Forstater et al., 2006). Other Chinese contributors to this field include the WTO Tribune's Golden Bee CSR award and the China Entrepreneur Club's Green Companies List.

Sustainability—and responsibility—is not, furthermore, only an issue for developed, wealthier markets. Benefiting countries that are hosts to Chinese investment is imperative for sustaining these increasingly important but still fragile sources of competitive advantage. Investment-starved countries, and those with a history of relying exclusively on a small number of investment sources, can derive considerable advantages from having China as a new and competitive source of capital. Chinese investment can drive host-country manufacturing exports, which in turn generates domestic employment opportunities; such investment can stimulate value-added production through trade and establish value-added relationships linked to existing production processes within China. It can raise commodity prices, generate employment and wage income, and provide a route for host-country business communities to gain a deepening understanding of emerging markets and associated opportunities.

[7] This section draws from Zadek and McGillivray (2008).

In addition, Chinese investment, whether through private or state-owned Chinese enterprises, can be and often is associated with broader developments in diplomatic relationships between China and host governments—relationships that for developing countries are increasingly linked to trade and investment agreements and intergovernmental financial arrangements. Chinese businesses and the Chinese government have choices about the degree to which these investments embrace sustainability or follow the old, developed-country model of exporting pollution to less developed countries. As China raises its labour standards and its population ages, the country must stem the flow of jobs to countries with lower labour costs. Delivering sustainability to China's partners is one way to avoid repeating the mistakes of colonialism.

Delivering on sustainability goals is a challenge, however. China's emerging transnational corporations, in common with other international business players, face a complex market environment. On the one hand, international markets are intensively competitive, especially in lower sections of the value chain where products are largely commoditized and offer slim margins at best. The economics of these markets, then, make it difficult for a company to ensure a responsible competitiveness that delivers acceptable conditions for workers, trusting communities that benefit from its operations, and world-class environmental standards. On the other hand, the much-sought-after higher margins are increasingly associated with demonstrable adherence to ever-more-challenging social and environmental rules of the game. Getting these standards of practice right, and visibly so, is a costly exercise that draws on scarce managerial and technical expertise. While few Chinese business managers would doubt the ultimate need to embrace sustainability standards, it is the pathway that is the challenge. Chinese enterprises are mostly still focused on opportunities lower on the value chain and so have to cope with intense competition, driven in no small measure by the demands of their Western multinational business clients, which are most visible in declaring their commitment to sustainable development. The challenge then is whether and how they can, in pursuit of strategic realignment that moves them up the value chain, embrace social and environmental performance issues without losing competitiveness along the way.

Chinese companies: Growth in Chinese sustainability standards

Green Series. The Green Credit and Green Securities programs restrict investments to high-polluting industries and promote environmentally friendly investment. These programs reflect many international environmental criteria set out in the Equator Principles.

Awards and indexes. The Golden Bee CSR Roll Call, Green Companies and other indexes and awards seek to evaluate Chinese companies' ability to embed sustainability in their business practices.

Local standards. Many Chinese cities, provinces and ministries have developed guidelines on responsible corporate behaviour and encourage further internationalization, often in a bid to see which will be adopted by other localities. Shanghai's Pudong District is experimenting with responsible competitiveness strategies, and its Zhangjiang High Tech Park Innovation Index measures potential to innovate and is seeking to link to similar international indexes or responsible competitiveness. The Shandong Provincial Bureau of Commerce manages a CSR association and has developed metrics to evaluate members. Dozens of other provincial and local governments have developed standards and guidelines (MacGillivray, Yin, Ives, Wickerham & Shi, 2009).

Chinese sectoral standards. The CSC9000T is a Chinese management and CSR system for the Chinese textiles sector. It is China's first voluntary management system to be recognized by international standards groups and international buyers. The Chinese Banking Association has also issued guidelines on social responsibility in Chinese banking.

Green building standards. China's largest residential construction company, Vanke, recently built the first building in China to meet Leadership in Energy and Environmental Design (LEED) standards with energy-efficient materials sourced entirely from China (personal interview with Vanke representative).

Sustainability reporting. In December 2008 the Beijing-based consulting company Syntao published *A Journey to Discover Values 2008: China Corporate Sustainable Reporting.* Some key findings were that half of China's sustainability reports were done by state-owned enterprises, but reports by publicly listed companies grew. They found that there is also great potential for reporting using voluntary frameworks such as the GRI or AA1000. Finally, lack of management recognition remains an obstacle for companies in releasing reports (China Sustainability Reporting Resource Center, n.d.).

Trends

Form fatigue or fear of information disclosure? Based on personal interviews, researchers in the Chinese sustainability index space note that Chinese companies are less likely than multinationals to report facts.

Government still takes the lead in China. In the United Kingdom, real estate companies pushed to adopt the LEED certification for green buildings. Marks & Spencer pushes for higher labour and environmental standards because that's what their customers expect. China's government, while working with industry to develop green building standards, has largely done so out of the perceived need to create Chinese national standards.

Some local standards promote competitiveness, others glory. Japan's domestic forestry sector is well-protected by legal frameworks, but Japanese companies abroad have been accused of cutting wood unsustainably, often to the destruction of their brands. Also, despite Japan's strong domestic forestry standards, these do not link to international standards that allow Japan to be truly linked to the trade in internationally certified sustainable wood products (personal interview, Alistair Monument, Technical Director of FSC China, October 2008).

An international standard. Many Chinese scholars argue that the China Social Compliance 9000 standard for the

textile and apparel industry (CSC9000t) improves Chinese competitiveness, but that it might also be able to boost China's competitiveness by raising international labour standards if it became the SC9000T, that is, an international standard recognized outside of China and applied by other countries .

Consumer attitudes

Chinese consumers will pay for premium brands. Chinese consumers have very low recognition of sustainable development labels. Data on this is very scant. In traditional areas, as of September 2008, consumers were willing to pay premiums of about 2.5 per cent for branded products, compared with the United Kingdom's 20 per cent. But 63 per cent still have a list of "favourite brands" that they would like to buy when they go to a store. High-income earners are willing to pay premiums of up to 60 per cent (St.-Maurice, Süssmuth-Dyckerhoff & Tsai, 2008).

4.2 China's Emerging Responsible Competitiveness

Responsible competitiveness strategies by nations and regions, as well as at the enterprise level, is a relatively recent phenomenon, but is rapidly emerging as a significant lens through which to plan and implement policies designed to enhance competitive outcomes. Approaches taken at this early stage vary among countries depending on their economic structure and stage of overall development. In common is an appreciation of the competitive advantage afforded through improved social and environmental performance of enterprises, sectors and the economy as a whole. Cambodia, for example, is seeking to enhance its competitiveness in the garment and textile sector by advancing improved labour standards as a distinct competitive advantage in what is otherwise a relatively commoditized market (www.betterfactories.org). Saudi Arabia's stated "10x10" policy aim of placing itself among the top 10 most competitive nations by 2010 has as one key implementation platform, the Saudi Arabian Responsible Competitiveness Initiative, in recognition of the role of social and environmental performance in growing a generation of global businesses. Similarly, the European Community has declared its competitive strategy to remain and deepen its lead as the most energy-efficient developed economy and seeks to promote international agreements and technologies that will consolidate the competitive advantage of this position. China's economic success has to date been largely underpinned by exports made competitive by virtue of low labour costs, often poor working conditions and weakly enforced environmental regulations. The impact of this is captured and measured by AccountAbility's Responsible Competitiveness Index, which tracks the progress of 108 economies in embedding responsible business practices into their respective economies.[8]

The Responsible Competitiveness Index provides a data-driven view of the extent to which social and environmental factors are built into nations' economies. For example, higher-scoring economies

[8] The Responsible Competitive Index 2007 includes 21 data streams covering, for example, measures of corruption, environmental management, tax avoidance and the ability of civil society to effectively challenge corporate behaviour. The data is all drawn from authoritative sources as diverse as Amnesty International, the ISO, the International Labour Organization, Transparency International, the World Economic Forum and the World Bank.

might be underpinned by stringent environmental regulations, high rates of business adoption of voluntary environmental management systems like ISO14000 and active environmental campaigners, whereas lower-scoring economies may have high levels of institutionalized corruption, a high incidence of tax avoidance, or restrictive regulations and norms preventing civil society organizations from challenging corporate misdemeanours. Such characteristics shape the manner in which businesses and entire economies function and, therefore, compete with each other. The Responsible Competitiveness Index 2007 therefore provides a means of assessing the extent to which responsible business practices are a factor in determining how any particular nation competes in global markets (Zadek, 2006).

China's comes in 87th in the most recent Responsible Competitiveness Index ranking. This low score, especially against other "BRICS" countries (Brazil, Russia, India, China and South Africa)—China lags the other four—should be a source of concern as China looks to move up the value chain. That is not to say that China is universally a poor performer on this index. China, for example, scores well on wage equality between men and women, above average for its class on occupational fatalities, just below average on the strength of auditing and accounting standards and staff training, and poorly on corruption and carbon dioxide emissions. Comparing China's performance against the other BRICS countries across the three principle domains (policy, business and society) reveals that it performs best in the policy domain and poorest on social enablers, while India and South Africa outperform the other BRICS countries in the business action domain. This low "social enabler" score turns out to be of critical importance when it comes to the matter of entering global markets, because it means that Chinese businesses are inexperienced in dealing with civil society organizations at home, and so are poorly prepared to deal with them in international markets, especially as these groups play increasingly bigger roles in shaping sustainability norms and rules across the global economy.

Poor business practices and an overall low performance in responsible competitiveness become a hindrance to China's strategy of producing sophisticated products and establishing a first generation of multinationals with global markets and brands. Chinese government policy clearly reflects this strategy, as manifested in the forced closures of factories producing contaminated food, strengthened labour laws and harsh penalties for corruption among senior officials. Official Chinese responses to environmental concerns by the international community are shifting from defensive references to claims of responsibility. As an example, a handbook recently produced by the Chinese Forestry Ministry "positively guides and standardizes Chinese companies' sustainable forestry activities overseas, promotes the sustainable development of forestry in those countries, [and] protects the international image of our government being responsible." These are early days, and China's problems and shortfalls continue to outweigh its record of good practice. But the stage is certainly set for China to steward and advance responsible business practices at home and internationally (MacGillivray & Zadek, 2008).

4.3 China's Policy Challenge

CNTCs' strategies for how to orient toward sustainable development are not, of course, purely a matter of private actors making self-interested decisions. Such strategies, while commercially pragmatic, will be influenced by the Chinese government's own policy guidance and suggestions. This will be especially important for state-owned enterprises, but also for other parts of the Chinese business community through a variety of policy instruments that impact everything from their access to information and finance to prevailing international regulations and norms.

Chinese trade and investment strategy is essentially a macrocosm of this CTNC challenge. China's engagement in the international economy needs to move away from pure labour-value-added toward the higher economic gains associated with more sophisticated technology, intellectual property ownership and premiums associated with globally valued brands. This strategy faces major competitive challenges from incumbent businesses supported by their respective governments' policies and practices. Equally, however, there is huge pressure to move in this direction in order to offset the trend toward protectionism against Chinese and other emerging economies, whether framed in terms of restrictions "in the national interest," "to protect industries and workers in transition," or to "prevent social and environmental dumping." Any move toward border carbon taxes by major export destinations will further accentuate the importance of this development.

Brand China will be associated with the values exemplified by the activities of high-profile companies, fairly or otherwise, just as the U.S. brand was after Enron and WorldCom, the Italian brand after Palmalat, the British brand in association with BAe Systems, and the German brand in the face of the corruption scandals associated with its iconic Siemens brand. Nations as well as businesses compete with each other, for example, through enabling policies and public investments in the broader underlying drivers of business competitiveness, such as good infrastructure, education and health care. Nations also embody communities or "clusters" of businesses, which leverage each other's competencies and create business climates and cultures that can support or restrict international competitiveness.[9] And the expectations and demands of citizens also impact the basis on which nations compete, for example, in what products and standards of behaviour they demand from companies they buy from, work for and invest in.

The key difference, then, between the Chinese government's policy context as compared with a specific CTNC's strategic landscape is that CTNCs can act independently but are interrelated, whereas the government has to make more unified policy decisions to address diverse economic and political landscapes. The aggregate effects, however, are similar. Any specific CTNC will decide the

[9] The possible existence of "responsible competitiveness clusters" was first discussed in Zadek (2001) and subsequently in Zadek, Sabapathy, Dossing and Swift (2003).

best pathway to take from the low-value to the high-value economy. These means will differ depending on the sectors and market they occupy and wish to enter. China's broader profile in international markets and political economy are, however, a result of all of these actors and actions combined. If one CTNC, in pursuing a clear commercial interest, chooses low social and environmental performance, this will negatively impact the opportunities and fortunes of other CTNCs. Similarly, higher environmental standards may work for some CTNCs, but be commercial suicide for others given the state of the markets in which they operate. In short, what is commercially sound practice for any one CTNC may not be in the best interest of others, or of China as a whole.

Until China enacts a deliberate stance toward enhancing its responsible competitiveness through participation in international voluntary standards, its "go global" strategy will remain incomplete.

5.0 Sustainability Standards and Competitiveness

China's choice to build responsible business practices rightly centres on the primary challenge of upholding the rule of law. The recent case of tainted milk products, for example, clearly calls for visible enforcement of the rule of law. China, however, lacks an approach to non-statutory standards and associated incentives that complement and, indeed, enhance the rule of law. China is by no means alone in facing the limitations of an overreliance on statutory compliance, but in many ways lags some of its key competitors and export and investment destinations. In Europe and North America, for example, the value of so-called voluntary standards that go above and beyond the requirements for legal compliance is increasingly recognized as crucial to enabling norms and standards. These standards are often developed, stewarded and enforced through non-statutory means. The reasons for this are well-documented and include the cost of statutory approaches, the clumsiness and backward-looking nature of many legal approaches and the unintended consequences of the overuse of the law, such as the United States' overly litigious environment. The German government's Ministry of Economic Cooperation rates voluntary standards as a "high" strategic priority and recommends "intense commitment in this field" (Federal Ministry for Economic Cooperation and Development, 2008; Litovsky, Rochlin, Zadek & Levy, 2008).

On the broader global stage, the damaging fate of the Doha Trade Round exemplifies the limitations of intergovernmental agreements of substance, and we see as a result a surge of not only bilateral and regional intergovernmental agreements but also non-statutory agreements between private actors that frame market transactions by "sustainability" standards and norms. Even the Europe-wide carbon trading system, widely cited to demonstrate the potential for innovative intergovernmental solutions, leaves much work to be done, and arguably would not have come into existence if its predicted substantive impact in the short to medium term had been significant. Again, we see private voluntary initiatives such as the Carbon Disclosure Project both enabling the carbon trading system to function more effectively and filling in gaps not covered by the system.

Applying the rule of law to sustainable trade presents numerous difficulties and limitations. Beyond the basics that should have been agreed to as part of the Doha Round, many dimensions of sustainable trade involve cross-border issues where jurisdictions can be unclear, or involve interjurisdictional issues with weak or non-existent regulatory enforcement mechanisms in practice. Furthermore, many issues are not and perhaps, in some instances, cannot be adequately covered by the rule of law. Examples of these include the share that peasant farmers get of the final value of their products, the responsiveness of global companies to community concerns when accessing water resources, or the employment of locals or nationals in the exploitation of their own resources.

Such factors, combined with the considerable asymmetries of power among global businesses, local communities and even governments, have led to the organic emergence of a "civil regulatory"

framework of non-statutory initiatives covering everything from Internet privacy, to human rights abuses committed by security forces guarding extractive-industry sites, to anticorruption initiatives, to the greening of cotton (Federal Ministry for Economic Cooperation and Development, 2008; Litovsky, Rochlin, Zadek & Levy, 2008).

Creating such standards, let alone enforcing them, poses considerable challenges. Until the early 1990s, global businesses, largely European and North American, found themselves more or less exclusively in opposition to campaigning organizations, again largely from these continents, though increasingly also from parts of Asia—notably India—and sub-Saharan Africa, and from across Latin America. Governments played an ambivalent role, often quietly supportive of business while increasingly having to respond positively to challenges to corporate power in the face of the growing popularity of campaigning organizations. From these largely dysfunctional beginnings has emerged a new generation of standards developed by "collaborative standards initiatives," often involving hundreds or thousands of interested parties, businesses and non-profit organizations, as well as public institutions acting as conveners and conveyers of the public interest rather than in their regulatory role.[10]

For example, standards covering cross-border project finance by financial institutions have been established as the Equator Principles,[11] stewarded by the International Finance Corporation. The most widely recognized and applied sustainable forestry standards are those of the Forest Stewardship Council (FSC). Standards of behaviour for security forces guarding extractive and energy sites are stewarded under the Voluntary Principles on Security and Human Rights; labour standards were first covered by the SA8000 and overseen by Social Accountability International and then by civil society organizations like the Fair Labor Association and the Ethical Trading Initiative. There are literally hundreds of these initiatives, and many of the most visible are global, but many of those have been adopted by businesses emerging at the national and regional levels (Long, Zadek & Wickerham, 2009; Rochlin, Zadek & Forstater, 2008).

These initiatives have not been driven exclusively by civil society organizations. Businesses and governments themselves promote these international voluntary standards as part of their own competitive advantage. The Extractive Industries Transparency Initiative (EITI), for example, was sponsored by several global oil majors, just as the Fair Labor Association was sponsored by the U.S. government together with leading U.S. apparel companies. Even where civil society organizations'

---

[10] Several groups have emerged to support the integration of these collaborative standards initiatives, most notably the International Social and Environmental Accreditation and Labeling Alliance (ISEAL Alliance), founded in 2000, which, according to the German Federal Ministry for Economic Cooperation and Development, is an organization "in charge of organizing the most important standard initiatives as well as the international knowledge management with regards to standard-setting, and which promotes the exchange of its members on the topic of best practices in this context." These organizations, say the ministry, "have significantly contributed to public awareness-raising."

[11] Li (2007) offers a good introduction and perspective on Chinese attitudes toward the Equator Principles.

actions are the drivers of such initiatives, such as the "Publish What You Pay" campaign in the case of EITI and student action in the case of the Fair Labor Association, companies and governments very often develop a leadership role as the resulting initiatives mature. Many forest-product companies support the FSC, as its core labelling strategy has become a real basis for commercial competitiveness in the sector.

5.1 Sustainability Standards as a Competitive Advantage

Collaborative standards initiatives provide a major opportunity to overcome the combined failure of global governance mechanisms and market-based solutions in order to create conditions in which businesses and nations can deliver sustainable development.

Without the forest-to-consumer stewardship of initiatives such as the FSC, the world's forests would be in a worse state than they are. And without initiatives that commit apparel and footwear companies like Nike to improve labour standards in the factories from which it buys, workers in their supply chains would get a worse deal than they do.[12] Countries such as the United Kingdom in the 1990s faced situations similar to China today, where jobs were moving overseas, media was driving sustainable development, the government and business saw the need to promote sustainable development outside the country's borders, and civil society was calling for more responsible business behaviour. It was in this context that global standards emerged.

Private voluntary standards today do represent a potential barrier to entry for emerging business communities and nations. Indeed, through the concerned eyes of Chinese business leaders, and indeed business leaders from most emerging economies, these standards are mainly seen as

- Controlled by western companies, NGOs and governments.
- Having unattractive access conditions for emerging-economy businesses.
- Involving standards that are not suitable for emerging-market firms and their competitive context.

It is true that most standards systems are dominated on the business side by existing global companies, largely European and North American, and create, in effect, non-technical barriers to trade. Many make it difficult to operate in high-risk countries, and yet, as stated above, Chinese businesses often find themselves confined to high-risk markets, especially when competing for access to raw materials. Whether stimulated and created by any combination of active international civil society, governments, or business, these standards have in the main become or are in danger of

12 For a history and commentary on the economic, social and environmental effects of voluntary standards for data protection and social and environmental standards, with case studies, see Haufler (2001; 2005).

becoming exclusive clubs for erstwhile enemies, that is, incumbent global businesses working with campaigning organizations.

Table 5.1 Scale of private sustainability standards.

Standard	Scale	Chinese trade	Drivers
Forest Stewardship Council Global non-profit membership organization founded in 1993 to provide standards, accreditation, product labelling and market access	Percentage of global paper pulp market certified by FSC (2007): 10 per cent Forests under FSC certified management: 10 per cent, or 105,450,874 hectares (size of three Germanies) Labelled retail sales (2007): US$20 billion Companies with a combined turnover of over US$250 billion in wood products committed to FSC certification	Import of wood products: US$15 billion (FAO statistics, 2007) Export of wood products: US$14.4 billion (FAO, 2007; Changjin, Liqiao, Lijun, Lu & Bass, 2008)	Commitment from Home Depot and Walmart *Harry Potter* printed on FSC paper, but there was only enough supply to print 65 per cent of books on FSC-certified paper Public procurement commitments from the U.K., Netherlands, Denmark, Germany, Belgium and France Companies choose FSC for improved reputation (82 per cent), access to new clients (74 per cent) and access to new markets (66 per cent) (Conroy, 2007)
Fairtrade Labelling Organization Non-profit, multistakeholder association involving 23 member organizations (labelling initiatives and producer networks), traders and external experts	75 per cent of British residents recognize the “fair trade” logo	China has minimal trade in Fairtrade coffee and tea Some specialty goods sold by Carrefour with the WWF	Competition among retailers like Tesco and Marks & Spencer to see who can have the most Fairtrade Low level of recognition in China, but some partnerships formed between businesses and NGOs Starbucks announced in October 2008 it would double purchase of Fairtrade coffee, becoming largest buyer (www.fairtrade.net)
Marine Stewardship Council The world’s leading certification and eco-labelling program for sustainable seafood	Certifying 10 per cent of global wild-caught fish	China is world’s largest producer: 16–17 million tonnes of wild capture (Peru, the world’s second largest, has 9.6 million tonnes) 13 million fishers (31 per cent of world’s total)	McDonalds and Walmart aim to have 100 per cent of fish stocks under MSC certification Governments such as Vietnam and South Georgia are working with fishers to certify stocks Walmart says, “When you’re big enough, what was an externality is now an internality.” (Conroy, 2007)

Initiative for Responsible Mining Assurance Social and environmental standards for mining	Five mining association members Five mining companies Dozens of NGOs	20 per cent of Chinese trade (Ministry of Commerce statistics)	After campaign from NGOs, the principles gained support from companies like Tiffany and Walmart (Conroy, 2007)
Principles for Responsible Investing 2006 UN initiative to make environmental and social governance part of investment analysis	444 signatories and US$18 trillion under management	China Investment Corp. and China Banking Corp. became signatories Motivation: become part of norm on investment and pension funds	Investment institutions want to become part of the normal investment community Supply chain issues Companies use disclosure to accelerate innovation, identifying waste and driving more efficient investment
Extractive Industries Transparency Initiative	24 candidate countries with high foreign investment in extractives sectors 40 companies signed up (no Chinese) 11 extractive importing countries support	No Chinese companies	
Voluntary textile initiatives like *SAI*, *ETI*, *FLA*, FWF, WRAP and BSCI	In March 2008 there were SA8000-certified products made by 875,052 workers in 64 countries and 61 sectors		

Two further crucial factors underlie these concerns or, more properly, the difficulty in overcoming them:

- Low trust between Western members of standards organizations and emerging-economy businesses blocks collaboration.
- Many emerging economy businesses, especially from China, have little experience in engaging in such initiatives, and in particular with civil society organizations.

There are important exceptions. ISO provides a forum and process that is more familiar to Chinese players. But with the exception of the environmental management standards (the ISO 14000 Series) and the current ISO 26000 guidance on social responsibility, most of ISO's focus areas are at

present not core to the sustainability agenda, though plans are in progress to develop ISO's role in this area. And, gradually, order is coming to the wider landscape of voluntary sustainability standards. The ISEAL Alliance, for example, has developed a code of conduct for such initiatives.

Sustainability standards do not confer costs and benefits equally across companies or nations.[13] On the down side, markets for talent, finance, and goods and services do not automatically reward companies that work to improve aspects of sustainability performance. For example, some aspects of sustainable development appear to have no effect on Western consumer purchasing unless two goods of similar cost and quality are compared, according to one study (Holding, 2007). In this case, environmentalism is only slightly correlated with consumer purchasing, but other factors that are also important to investors, such as corporate governance and diversity, were more important to consumers. Also, there is no statistically significant relationship between the financial performance of the world's largest companies—the Global 100—and their score on the Accountability Rating (Zadek, 2007b). This fact may be for any one or more of three reasons:

- Firms often do not know how to exploit the business opportunities of enhanced sustainability performance.
- Even when they do, the gains have not yet fed through to reported financial performance.
- Most important is that markets are often "backward looking" and do not yet reward sustainability performance that, over the longer term, could provide significant financial gains.

Similarly for nations, the distribution of competitiveness gains from these standards are often location-specific. Leadership in improved emission standards for vehicles produced in Europe may deliver competitive advantage to the region, as such emissions are internalized into markets through legal pollution limits or when emissions contribute to a product's "embedded carbon" as priced, say, through cap-and-trade or carbon taxes. But as long as costs remain largely externalized, the higher costs for achieving lower emissions may well render the sector uncompetitive, especially in the high growth markets of India, Brazil and China. International pressure on Chinese apparel, textiles and footwear producers to improve standards certainly point the way toward desirable markets where businesses and nations are rewarded for enhanced sustainability outcomes. However, as long as purchasing practices by international buyers from global retailers are so heavily weighted toward price-point competitiveness, this pressure remains too often at odds with the realities of sustained competitiveness.

[13] For commentary on the fractured, sectoral nature and economic foundations of CSR, see Steger, Lonescu-Somers and Salzmann (2007). For a study on the correlation between sustainability and economic success that indicates "vice" funds do better than "virtuous" funds but that sustainable companies have competitive advantage in four areas—cost savings, product differentiation, innovation and strategic planning—see Asong (2007). Also see Soederberg (2007).

Sustainability standards are a means of offsetting competitive disadvantages or creating competitive advantages through the adoption of sustainability pathways by businesses and nations.

The Equator Principles, which set out sustainability principles to be applied for cross-border project investments, were advanced in particular by global financial institutions such as Citigroup and ABN Amro to enable them to apply such standards without facing competitive disadvantages. The EITI, similarly, was established to help companies like BP and Shell respond to growing societal pressure to publish data on royalty payments to host governments, and to avoid the threat of exclusion by those same governments. Acting alone, BP reasoned, would leave the company vulnerable to being excluded from access to resource opportunities in favour of competitors that were willing and able to ignore pressure to be more transparent in their dealings. Collaboration can also at times lead to reduced cost disadvantages or even absolute cost savings. Supply chain social and environmental auditing has added multi-million-dollar expenses that when adopted by vulnerable premium brands alone, can leave them with a significant cost disadvantage in fiercely competitive markets. Furthermore, through initiatives such as the Ethical Trading Initiative, opportunities are being developed for sharing such costs to reduce their absolute levels.

The competitive dimensions of sustainability standards, following the well-documented history of regulatory competition, is therefore especially related to the disadvantageous competitive position in which enterprises and nations find themselves as a result of their adoption of better sustainability practices than their competitors (Zadek, Raynard, Oliviera, de Nascimento & Tello, 2005). In such so-called first-mover disadvantaged situations, it becomes in companies' interests to encourage their competitors to reach the same standards and so, at minimum, offset the original competitive disadvantage. In these cases sustainability standards can be competitively smart for the enterprises of one nation only when others also join the standard. Game theory says these "prisoners' dilemmas" are likely to be overcome during repeated interactions such as trade. In such cases, it benefits sustainability leaders to help laggards toward mutually beneficial development outcomes through participation in voluntary sustainability standards, which offer the chance to overcome these dilemmas. It is in this context that we can turn to a brief review of China's approach to sustainability standards for enterprises.

Chinese business leaders adopt private sustainability standards

Developed in 2002, the Carbon Disclosure Project is the largest investor coalition in the world on climate change issues, with 385 signatories and $57 trillion in assets. Globally, 1,550 companies of the total 3,000 companies surveyed by the project have responded. In China in 2008, for first time, 20 per cent of the largest 100 listed companies responded, with an additional 5 per cent providing complete information and 17 per cent declining. Comparatively, 77 per cent from the Global 500 responded, 90 per cent from the FTSE 100 and 321 from the S&P 500. China has two signatory members, the China Industrial Bank and the China Investment corporation (Syntao, 2009).

The China Ocean Shipping Company (COSCO) is one of China's most active participants in international voluntary standards initiatives, having signed up to the United Nations Global Compact and its Caring for Climate initiative. It also uses the Global Reporting Initiative and the AA1000 Assurance Standard to ensure quality and accountable sustainability reporting.

5.2 China's Current Stance on Sustainability Standards

Chinese businesses going global are facing a new generation of sustainability standards in international markets. At times they are statutorily framed, but often, and increasingly, they are collaboratively developed voluntary standards. The strategic question is not whether but how to respond to them. In many respects, the answer depends on the business, the sector, the markets being addressed and many of the factors set out in preceding sections of this paper.

Labour standards in Chinese supply chains

The Responsible Supply Chain Association of the China National Textile and Apparel Council created the CSC9000T voluntary standard and management system to suit what was in its view the situation of China's textile sector as a self-disciplinary, industry-specific, voluntary association that puts special emphasis on protecting workers' rights and enhancing capacity for businesses to develop sustainably. This standard has the support of the Chinese Federation of Labour Unions and accords well with many international systems, such as the ISO 14000 Environmental Management System. Aligning the CSC9000T to other standards gives Chinese industry the potential to influence the development of these standards, but this is not an explicit goal.

This national standard, combined with management training, has had a mixed reception by international organizations, which question whether China is seeking to uphold or undermine existing standards, particularly as the question relates to the sensitive issues such as the right of workers to form independent unions, organize and collectively bargain with employers. There is clearly potential, however, given the huge importance of Chinese suppliers in many global supply chains, for CSC9000T to become part of a global norm. This is especially significant because the China National Textile and Apparel Council and the Responsible Supply Chain Association have had limited engagement with international organizations such as the Foreign Trade Association's Business Social Compliance Initiative, WRAP and the International Labour Organization.

The wariness of Chinese businesses and government officials does not always prevent Chinese businesses from adopting such standards, particularly process-focused standards such as the Global Reporting Initiative's Sustainability Reporting Guidelines and AccountAbility's AA1000 Assurance Standard. On the other hand, there is a strong sentiment that imported standards will not be appropriate for Chinese enterprises. "We should make CSR standards with Chinese characteristics," said Li Hongyan, General Secretary of the 2006 Building a Harmonious Society and CSR (Shenzhen) Forum. And in response to such sentiments, the Chinese Academy of Productivity Science has drafted a universal CSR framework called "Chinese Corporation Social Compliance" (Deng & Li, 2006). Similarly, China-branded sustainability and responsibility standards are emerging in textiles and other sectors. Adding a country's characteristics to standards or creating entirely new standards can be appropriate in many cases, but the process becomes counterproductive if associations or ministries gain prestige through standard creation at the expense of international competitiveness. Standards with Chinese characteristics should be measured against many criteria, including necessary policy goals.

Chinese companies, working with the Chinese government, have a real choice in responding to prevailing sustainability standards in international markets. Labour standards in textiles and apparel are a case in point. Several standards have emerged and are widely used by international business, notably those promoted by the Ethical Trading Initiative, the Fair Labour Association and Social Accountability International (home of the SA8000). The Chinese response to this has been to develop and promote the CSC9000T (see the box "Labour standards in Chinese supply chains"). While the CSC9000T has developed some cooperation with existing standards bodies, this approach clearly implies a decision by China not to engage directly in existing international initiatives, whether because of problems with the substantive conditions of the codes being promoted, the participants, the process and associated governance, or some combination of these.

Sustainable forestry is an area where Chinese enterprises have adopted a "join and promote" approach to existing international sustainability standards. Sustainable forestry is a widely acknowledged issue, for which national legislation in most countries where major forestry industries reside is largely inadequate. As a result of this, and of widespread activism by international campaigning organizations, the FSC evolved to become the world's leading sustainable forestry certification system. According to Heiko Liedeker, until recently executive director of the FSC and chair of the European Forest Team of the WWF, "The FSC has shown that it improves forest management substantially and provides credible certification. The world's forests now need better management to achieve the standards of the FSC rather than more certification schemes or mutual recognition frameworks" (Greenpeace, 2001). Such certification schemes, with their strong chains of custody, may prove powerful for China as it seeks to overcome new statutory barriers to trade in timber that is suspected to have come from illegal sources. Such barriers include the United States' recently amended Lacey Act, which would ban many manufactured products made from raw wood

materials that have been harvested in countries where illegal wood harvests take place. This newly amended act means some U.S. companies trading in Chinese forest products could face forfeiture, penalties and even imprisonment (Gregg & Porges, 2008).

China is already learning the value of automatic branding through certification by the FSC. Chinese companies have made the FSC the fastest-growing forestry certification scheme in China (MacGillivray et al., 2009). As of September 2008 China had 730 active certified members, with the first having been certified in 1998. In June 2007, when the international board of directors of the FSC announced the accreditation of the Forest Certification Working Group in China as the official FSC national initiative in China (FSC China), chairman Grant Rosoman said, "China is a key player in global wood products trade and manufacturing. There is an enormous opportunity for Chinese businesses together with FSC to transform the national and international wood products trade into a responsible trade, while at the same time capturing additional value and protecting the world's forests" ("China takes crucial step," 2007). And yet even with the area of the FSC's certified forests totalling approximately three times the area of Germany, there was only enough supply to print two-thirds of the last Harry Potter book on FSC-certified paper (Conroy, 2007). China, as the world's largest processer of wood products, can do much to correct this imbalance.

China, collaborative voluntary standards and the distributive benefits of globalization

The United Kingdom's minister of international development, Lord Malloch-Brown, commented in a speech on August 30, 2007, that "China's full support for and engagement with the Extractive Industries Transparency Initiative would not only be hugely symbolic but would make a real practical difference. It would be a big push toward much greater transparency in… oil markets. The point is that a common approach will only be effective if it is just that—common. It is bound to be weakened if we apply different standards as donors and partners on working conditions, labour conditions or debt sustainability, or standards of governance in different individual countries. But for none of us, least of all China, working together in this way shouldn't be seen as a sacrifice of agenda."

The Chinese Ambassador to the United Kingdom, Zha Peixin, emphasized the importance of what many actors are beginning to see as the opportunities afforded by collaborative voluntary standards. Zha said, "All countries, big or small, poor or rich, strong or weak, should have the right of equal participation in international economic affairs, and the formulation and revision of 'rules of the game' should not be determined by only a small number of countries or groups of countries." He urged "that the benefits of globalization [be] shared more widely and equitably" and argued that globalization should be "conducive to [narrowing] the gap between the North and South" (Zha, 2003).

The development of sustainability standards through the ISO, though in its early stages, provides further insights into China's existing and possible options and strategies. Chinese researchers, including China's leading state-owned enterprises, have become active participants in ISO's work on its social responsibility guidelines, ISO 26000. In this instance, faced with a known and understood process, namely ISO standards, Chinese enterprises and standards bodies have been more willing to engage in the development of the standard, despite the considerable differences between Chinese representatives and others engaged in the process. This case shows that China's will to engage is directly connected with the availability of institutional pathways rather than the people or groups involved or the topic. Therefore, a standard's governance and transparency are important to the process and can boost Chinese participants' confidence that they can exert influence effectively. This transparency of governance and process means that Chinese and participants from other developing countries can more reasonably understand and predict processes and outcomes.

As a final example, the case of extractive-industry sustainability standards is noteworthy. Numerous sustainability standards have been developed in efforts to address aspects of the extractive industry footprint, which can be and often is extensive and negative in social and environmental terms. A business coalition, the International Council on Minerals and Mines, has sought to establish principles and oversight approaches, in consultation with others, covering the entire footprint of its business members. The EITI has established voluntary means of engaging host governments, together with mining and energy enterprises, in reducing the incidence of corruption and misuse of public funds associated with concession-related royalties. And the Voluntary Principles on Security and Human Rights, again comprising a coalition of businesses, governments and human rights organizations, have established principles for guiding the activities of security forces mandated to protect extractive and energy sites.

These initiatives are interesting in that there has been virtually no engagement in any of them by Chinese enterprises or the Chinese government. In the case of the EITI, one possible explanation is that it is seen to cross the line in interfering with the internal affairs of other sovereign states, which it clearly does. In the case of the Voluntary Principles on Security and Human Rights, one reason could be that China rightly sees the human rights community that currently composes the membership as, in the main, antagonistic, which would make it difficult if not impossible even to realize membership, let alone do anything constructive within the organization. In the third case, the International Council on Minerals and Mines, made up exclusively of enterprises, one might speculate that it would be very hard for a Chinese company to join an initiative made up exclusively of Western companies.

The U.S. Senate's approach to EITI, on the other hand, strongly encourages the U.S. government and businesses to systematically address the connections among extractives, corruption, reporting and poverty reduction, and encourages the G-8 to mandate "publish what you pay" rules for the

cost of extractive resources (Minority Staff of the United States Senate Committee on Foreign Relations, 2008). Whether or not to join this and similar voluntary standards frameworks is not a simple decision for developing countries. China, because of its size and strengths, has more strategic options than most developing countries.

5.3 Strategic Competitive Framework for Sustainability

Sustainability standards, therefore, can be perceived as barriers to doing business when the opportunities they bring are ignored or if crucial actors do not engage; they also present opportunities to enhance competitiveness. In fact, these options are mirror images of each other, since sustainability standards are currently providing competitive opportunities for Chinese corporations' competitors. By implication, Chinese businesses and the Chinese government have the opportunity to frame this question with pragmatic analysis, namely by asking what China can do to address any particular standard to deliver enhanced competitiveness.

In addressing this question, the Chinese government and China's business community, individually and collectively, are faced with the three broad pathways discussed in Section 1.0: normalization (compliance), exceptionalism (opting out) and transformation (engaging and influencing). Which pathway it makes more sense to pursue depends on two crucial variables:

- The actual or potential impact of any particular standard on CTNCs competitive position.
- The capacity of CTNCs to influence the standard.
- Putting these two variables together with the three pathways provides the basis for a simple strategic framework offering four options:
- *Ignore*. If a standard and its proponents are of little or no importance to Chinese competitiveness and China is poorly placed to influence the standard.
- *Mitigate*. Finding ways to reduce the impact of a standard that the Chinese cannot influence but that could, if effective, reduce Chinese competitiveness.
- *Leverage*. Seeking to enhance the impact of a standard on global markets if its success would enhance Chinese competitiveness.
- *Promote*. Enhancing a standard over which China has influence and that could enhance China's competitiveness.

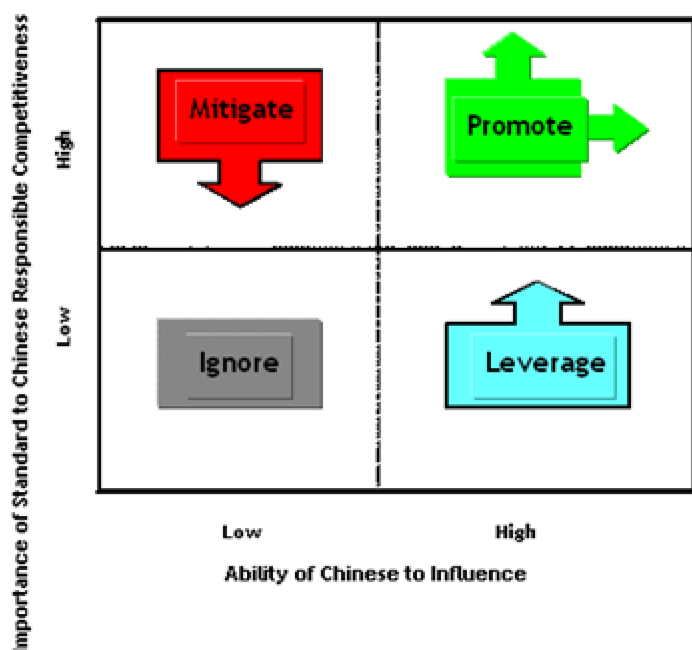

Figure5.1 Strategic framework for dealing with sustainability standards.

5.4 Using the Framework

The key message from the preceding analysis and framework is that CTNCs can and should make active decisions about specific sustainability standards based on their commercial interests and strategies. In this way they can behave using the same rules to compete with incumbent international business organizations. Similarly, the Chinese government should frame its response to prevailing sustainability standards in global markets based on its broader national policy of moving China's internationally traded goods and services up the value chain, with the associated need for meeting associated standards, norms and stakeholder expectations.

Pursuing sustainable trade and investment does not, therefore, mean the passive acceptance of existing sustainability standards, nor does it mean a strategy of "avoidance where possible." Promoting the FSC standards for sustainable forestry might well be in the interests of the leading CTNCs in this sector. The Chinese government may choose to promote this standard in exchange for an agreement with international organizations to mitigate, for a time, its negative competitive effects on smaller or less-advanced Chinese companies. Similarly, there is scope for the Chinese government, working with CTNCs, to embrace international standards initiatives, such as the Ethical Trading Initiative, that focus on learning and collaboration in advancing workers' conditions in global supply chains rather than taking a rigid compliance approach to issues that would be difficult for CTNCs to sign up to, such as the rights of independent trade unions to associate freely and engage in collective bargaining. In efforts to stimulate rural incomes, promote sustainable

domestic consumption and spur fairer South-to-South trade, China may choose to work with organizations like the Fairtrade Labelling Organization[14] to establish guidelines suitable for the Chinese context. Indeed, it might be in the interests of key CTNCs to actively promote such labour standards in current circumstances, where Chinese labour costs are increasing relative to many Asian and even Latin American competitors because of a combination of key labour shortages and an appreciating domestic currency, perhaps in combination with regional trade agreements or perhaps with these voluntary standards built into trade agreements.

These standards can also create microclimates that not only provide new responsibly competitive market signals in trading areas but can also help prepare CTNCs within the right atmosphere domestically. If the government procures goods with voluntary sustainability standard labels, as the Swiss government does, it can further prepare consumers and companies for these standards outside borders, as well as provide spillover effects to disadvantaged communities. Fair trade standards, especially, may spur domestic consumption, especially if tied to statutory measures, and may be conducive to South–South trade and overcoming Chinese domestic savings and investment gaps. This is especially important, as well, in moving up the value chain, where companies may want to capture higher-value consumer markets at home and align their nascent brands to international standards that are more easily recognized abroad.

The Chinese government, moreover, may well choose to support key sustainability standards initiatives because it no longer feels able alone to monitor and control the activities of CTNCs that may be pursuing commercial strategies that are damaging the broader interests of Brand China. Initiatives such as the Equator Principles and the Extractive Industry Transparency Initiative provide means to extend the government's scope of control over its own business community and, therefore, the risks and benefits that the business community might pose to China's broader development process. Aspects of standards that threaten to damage CTNCs' reasonable foundations for competitiveness can, and can only, be mitigated if the Chinese government is directly involved in the future development of such standards. China's active engagement in the development of the ISO 26000 Social Responsibility Standard shows that the country can play an active role in the governance of international standards and may choose to use these as policy instruments for sustainable development.

It seems likely that, in many if not most areas, the balance will tip toward (voluntary) collaboration among relevant governments and international bodies, enterprises and civil society organizations rather than toward statutory standards. There are exceptions to this, of course. The Chinese government's own moves to improve the benefits and protection provided by workers' contracts is a case of a statutory shift. But even here, China may choose to promote collaborative means of

[14] For more information on the Fairtrade Labelling Organization, visit http://www.fairtrade.net; for a brief summary of fair trade history, see Witkowski (2005).

establishing comparable conditions in other producing nations to prevent competitive disadvantages or even to increase adherence to domestic labour standards. Indeed, rather than seeing standards in either-or terms, the more interesting perspective is to understand the complex dynamic between statutory and collaborative initiatives (Zadek, 2007c).

Collaboration, of course, requires engagement from many sides, and ample anecdotal evidence suggests that many participants in existing collaborative standards initiatives are reluctant to engage with China, despite the risks of becoming irrelevant over time by not doing so. The entry conditions to the Voluntary Principles on Security and Human Rights have been the subject of intense debate, with human rights organizations being reluctant to adopt the "big tent" approach advocated by participating governments and companies, which would enable and encourage emerging-economy governments and enterprises to engage. Similarly, the governance of these initiatives is dominated by Western companies and civil society organizations that, while often erstwhile enemies, find themselves with common cause in wanting to sustain the underlying values and associated personal and institutional solidarity that underpins many of these initiatives.[15]

In conclusion, then, China has variously developed, adopted or ignored sustainability standards across different sectors at different moments in its development, advancing solutions that are sometimes statutory and at other times voluntary. While such diverse responses are, in a sense, to be expected given the heterogeneity of circumstances, it is less clear whether such diverse responses result from clarity and focus or, rather, ad hoc interventions within a policy vacuum. It is in this context that we turn to the final section, which concerns strategic options for advancing China's sustainable trade.

[15] Highlighted in Rochlin, Zadek and Forstater (2008).

6.0 The Next Steps

Competitiveness comprises many factors. Some are present (or absent) purely at the enterprise level. These include specific technologies, unusually attractive terms of access to capital, a premium brand on which to build high-value sales, and so on. Others are a function of broader factors, such as public policies that may advantage specific forms of enterprise, shifts in societal expectations and, of course, changing market prices—for example, in commodities and carbon-based products. In most instances the critical link between the micro and macro level concerns the capacity of the enterprise to respond flexibly and effectively to changing market conditions and the ability of enterprises, often working with governments and others, to manage market risks and opportunities through managing the collective brand of the relevant business community, and by setting new market rules such as regulatory competition.

Sustainability standards are, of course, only one facet of this complex equation. However, these standards are, in many sectors and circumstances, an increasingly important element. Indeed, the success of many of the traditional aspects of competitive behaviour, such as those set out in the earlier sections, depend on sustainability factors. For example, acquiring premium brands as a means of accelerating moves up the value chain, as with Lenovo's purchase of the IBM personal computing brand and technologies, will be ever harder if attempted by Chinese companies with a poor sustainability record. Similarly, securing access to natural resources, even in concert with exceptionally attractive financial terms, will become more difficult if Chinese enterprises have a demonstrably poor track record on employment of nationals, management of community issues and handling of environmental footprints. The links between competitiveness and sustainability performance along the value chain are also hard to separate. For example, establishing research and production facilities in Europe in pursuit of scarce talent will be likely to fail if the same enterprise is acting elsewhere in its value chain in ways that such talent deems unacceptable.

That is, competitiveness strategies cannot be understood, let alone successfully formulated or implemented, without an integrated approach to credible sustainability practices, which means developing strategies to address sustainability standards at the level of both enterprises and Brand China as a whole.

Collaborative standards initiatives have become commonplace in the development of sustainability standards for enterprises operating in global markets. These initiatives, governed by non-state actors and public institutions acting in their non-statutory roles, seek to create de facto regulatory enforcement through a blend of citizen-based campaigning, capital-market risk-based responses, peer-to-peer business pressure and, in some instances, the threat of statutory regulation in key markets. These initiatives have developed in an ad hoc manner and are fragmented in scope, coverage and quality. Nevertheless they are, taken together, a global phenomenon and are

increasingly finding ways to "join up," for example at the technical, governance and financing levels. Going forward, collaborative standards initiatives offer a credible option for filling the gap left by shortfalls in intergovernmental solutions.

Chinese enterprises and the Chinese government are, in the main, uncomfortable in engaging in non-state processes of standards development, with the exception of more structured institutional processes such as those led by the ISO. Many of the actors involved are business competitors or non-profit organizations with a history of antagonism toward China. In addition, the content and the manner in which it is treated, especially in the social sphere, appears from both sides to effectively exclude Chinese participation. As a result, China has in the main sought to ignore and, if necessary, evade prevailing standards designed and governed through collaborative means. The impact of this default positioning erodes trust in Chinese businesses and Brand China overall, creating the grounds for more overt protectionism and moralizing by the global community. This, in short, provides the basis for a vicious circle with no winners.

Collaborative initiatives advancing sustainability standards in global markets are a long-term phenomenon, and China's economic competitive and broader interests are best served through engagement in the development of the next generation of these standards and the manner in which they are governed.

6.1 Policies to Enable and Create Incentives

The Chinese government should signal its commitment to engaging in collaborative initiatives promoting sustainability standards in global markets as one pillar of its underlying strategy for advancing China's harmonious development and "going global." The focus would be on enterprise-level engagement in select existing standards, with the Chinese government taking an active role where other governments are involved in advancing reviews of their content, positioning and governance.

Beyond such broad policy framing and engagement, the Chinese government has the opportunity to incentivize effective enterprise-level engagement in the development and application of sustainability standards by introducing such engagements as one criterion associated with the following instruments:

- Provision of preferential income tax arrangements for companies embedding sustainability strategies into their international investment.
- Operation of one or more international investment funds to offer seed or parallel public funding to support international investment, such as the newly established China-Africa

Development Fund.

- Encouragement of suitable public or privately delivered insurance products to encourage international investment.
- Access to foreign-exchange reserves, a key instrument available as long as the yuan is not freely convertible.

6.2 Knowledge Development

Chinese enterprises remain mostly unaware of the history or place of collaborative standards initiatives in global markets, relying on their own, often poorly informed knowledge networks to guide them in associated perspectives and decisions. In fact, this situation is part of a broader gap in knowledge provision to Chinese enterprises as they emerge into global markets covering the basics such as country data, market analysis and information on the legal context.

Overcoming this knowledge gap therefore needs to be part of a wider upgrading of what the Chinese government already directly provides, either following examples such as the Japan External Trade Organization or ensuring that private service providers emerge to deliver what is required. Areas where Chinese government interventions might be especially useful include:

- Establishing an institute for promoting international investment, drawing in part on lessons from other successful experiences such as the Japan External Trade Organization, but also adding a significant component that covers sustainability standards.
- Easing restrictions to ensure the availability of key personnel to support international investment activities and, as part of this, strengthening the training of Chinese managers to operate effectively in managing international investments.
- Improving the effectiveness of China's diplomatic service in supporting CTNCs in their international investment activities, following examples where commercial attachés have undergone in-depth training in sustainability issues as they relate to foreign investment and trade.

6.3 Aligning the Brand

Finally, policy needs to be directed toward the actual improvement of the conditions within which CTNCs can make international investments. CTNCs face many potential obstacles to making such investments, some merely bureaucratic, some nationalistic and others purely commercial. Interestingly, as we have argued extensively in previous sections, "sustainability" is not just another possible obstacle but is often the vector through which many other concerns and issues are expressed. Leveraging some of the recommendations made above, policy in action might assist in overcoming obstacles in the following ways:

- Diplomatic means will become increasingly important if concerns increase over Chinese investments per se, as they will do if the responsibility of Chinese enterprise in general terms is placed in doubt. Similarly, diplomatic means and activities to enhance the profile of responsible Chinese enterprise will be important and effective as long as diplomatic teams are provided with the requisite knowledge and training (see above) and are aware of the actual practices of CTNCs (also see above).
- Leveraging Chinese foreign assistance to further international investment has been a well-used avenue by other investing nations, including the United States, Europe and Japan. Foreign assistance can best provide a sustainable competitive advantage to CTNCs if it is visibly effective in benefiting the host country and, therefore, not wasted on prestige projects or leaked through corrupt practices along its value chain. China's embracing of the Paris Declaration regarding aid effectiveness, and its ensuring the linkage of aid to sustainable international investment, will help in this regard.
- Bilateral and regional trade agreements can facilitate sustainable trade and international investment, especially in the face of disappointing progress in the Doha Development Round. While negative conditionality links to labour and environmental standards are ill-regarded by most trading and investment partners, incentives linked to such standards would certainly establish China's credentials as being committed to sustainability. Cases such as the U.S. trade agreement with Cambodia illustrate also how collaboratively developed standards, in this case regarding labour standards in the textile and apparel industry, can be dovetailed into such intergovernmental agreements.

Sustainable trade and international investment should be treated as an integral element of the Chinese and, indeed, any government's strategy for advancing its nation's development. The right course of action is not to have a sustainability strategy, but a sustainability perspective embedded at the heart of a strategy for trade and investment. This paper has tried to advance thinking on this as it relates to the specific circumstances of China's next stage of development, where Chinese enterprises are going global in every respect. In some senses, the same arguments could be presented for any country at any stage of development. However, China has a unique opportunity to get it right the first time, as opposed to most nations, which have had to struggle to retrofit their policies and practices with a sustainability focus. To that end, the recommendations made in this section are intended to be pragmatic and aligned with China's current circumstances and needs while at the same time seeking to establish a basis for China and CTNCs to address the needs and opportunities now and in the future.

7.0 References

Accenture. (2005). *China spreads its wings—Chinese companies go global.* New York: Accenture. Retrieved from http://www.accenture.com/NR/rdonlyres/6A4C9C07-8C84-4287-9417-203DF3E6A3D1/0/Chinaspreadsitswings.pdf.

Ask the experts: Banks and sustainability. (2006, February 16). *Financial Times.* Retrieved from http://www.ft.com/cms/s/2/6e7e1296-9eea-11da-ba48-0000779e2340.html.

Asong, J. (2007). Socially responsible investing: Correlation of growth companies, innovation, and sustainability. *Journal of Business and Public Policy, 1*(2), 21–35.

Battat, J. (2006). *China's outward foreign direct investment*. Washington, D.C.: World Bank Group.

Beebe, A., Hew, C., Yueqi, F., & Dailun, S. (2006). *Going global: Prospects and challenges for Chinese companies on the world stage.* Somers, NY: IBM Institute for Business Value.

Bellabona, P., & Spigarelli, F. (2007). Moving from open door to go global: China goes on the world stage. *International Journal of Chinese Culture and Management, 1*(1), 93–107.

Bernstein, S., & Hannah, E. (2008). Non-state global standards setting and the WTO: Legitimacy and the need for regulatory space. *Journal of International Economic Law, 11*(3), 575–608.

Carey, C. (2008a). *E047 Governmental use of voluntary standards. Case study 2: Bolivia and Forest Stewardship Council standards.* London: ISEAL Alliance. Retrieved from http://www.isealalliance.org/_data/n_0001/resources/live/E047_Bolivia_FSC.pdf.

Carey, C. (2008b). E053 Governmental use of voluntary standards. Case study 8: South Georgia and South Sandwich Islands and the Marine Stewardship Council Standard. London: ISEAL Alliance. Retrieved from http://www.isealalliance.org/_data/n_0001/resources/live/E053_SouthGeorgia_MSC.pdf.

Changjin, S., Liqiao, C., Lijun, C., Lu, H., & Bass, S. (2008). *Global forest product chains: Identifying challenges and opportunities for China through a global commodity chain sustainability analysis.* Winnipeg: IISD.

China Ocean Shipping Company (COSCO). (2007, April 6). *COSCO studies implementing global compact responsibility.* Retrieved from http://www.sasac.gov.cn/n1180/n2381219/n2386429/n2386444/2589401.html.

China takes crucial step for responsible forest management. (2007, June 28). *FSC News*. Retrieved from http://www.forestrycenter.org/headlines.cfm?refID=99115.

China Sustainability Reporting Resource Center. (n.d.). *Home page*. Retrieved from http://www.syntao.com/Sustain/index.asp.

Chinese Academy of Science Sustainable Development Strategy Research Group. (2007). *China sustainable development strategy report 2007: Water: Governance and innovation*. Beijing: Science Press.

Chinese Academy of Science Sustainable Development Strategy Research Group. (2008). *China sustainable development strategy report 2008: Policy review and outlook*. Beijing: Science Press.

Conroy, M. (2007). *Branded! How the certification revolution is transforming global corporations*. Gabriola, B.C.: New Society Publishers.

Conway, T. (1996). *ISO 14000 Standards and China: A trade and sustainable development perspective*. Winnipeg: IISD.

Cox, C. (2005, October 18). *Speech by SEC chairman: Remarks before the Securities Industries Association/Tsinghua University Conference*. Retrieved from http://www.sec.gov/news/speech/spch101805cc.htm.

Deng., H., & Li, D. (2006, November 20). Shenzhen to create CSR standards. *Szdaily web edition*. Retrieved from http://www.newsgd.com/citiesandtowns/shenzhen/news/200611200045.htm
Federal Ministry for Economic Cooperation and Development (BMZ). (2008). *Introduction of voluntary social and ecological standards in developing countries. Synthesis report*. Bonn: BMZ.

Forstater, M., Zadek, S., Evans, D., Knight, A., Sillanpää, M., Tuppen, C., & Warris, A.-M. (2006). *The materiality report: Aligning strategy, performance and reporting*. London: AccountAbility. Retrieved from http://www.accountability21.net/uploadedFiles/publications/The%20Materiality%20Report.pdf.

Golklany, I. M. (1995). *Strategies to enhance adaptability: Technological change, sustainable growth and free trade*. Washington, D.C.: Office of Policy Analysis, U.S. Department of the Interior.

Greenpeace. (2001, February 19). *Environmental organisations call for credible forest certification and reject IFIR mutual recognition proposal* [press release]. Amsterdam: Author.

Gregg, R. J., & Porges, A. (2008). *Amendment to the U.S. Lacey Act: Implications for Chinese forest products exporters*. Washington, D.C.: Forest Trends and Sidley Austin LLP. Retrieved from http://www.illegal-logging.info/uploads/ForestTrendsLaceyChina.pdf.

Harris & Moure. (2008, February 28). Why Chinese companies fail in the U.S., part II. *China Law Blog.* Retrieved from http://www.chinalawblog.com/2008/02/why_chinese_companies_fail_in.html.

Haufler, V. (2001). *Private sector and international standard-setting: The challenge for business and government.* Carnegie Discussion Paper 3. Washington, D.C.: Carnegie Endowment for International Peace. Retrieved from http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=220.

Haufler, V. (2005). *Comparing private sector initiatives: Labor standards, information privacy, environmental management.* Carnegie Discussion Paper 2. Washington, D.C.: Carnegie Endowment for International Peace. Retrieved from http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=584.

Holding, C. (2007). *CSR's impact on brand value grows*. Cone Consulting. Retrieved from http://www.policyinnovations.org/ideas/commentary/data/csr_brand_impact.

Li, R. (2007). International program finance's environmental and social standard: The Equator Principles. *China WTO Tribune.*

Litovsky, A., Rochlin, S., Zadek, S., & Levy, B. (2008). *Investing in standards for sustainable development* [working paper]. London: AccountAbility.

Long, G., Zadek, S., & Wickerham, J. (2009). *Advancing sustainable competitiveness of China's transnational corporations*. London: AccountAbility.

Ma, K. (2004). Strike up and follow through a scientific concept of development and facilitate a radical transformation of the mode of economic growth. In Wang M., *Sustainable development of China in an all-sided and well-coordinated way*. Beijing: The People's Press.

MacGillivray, A., Yin, G., Ives, K., Wickerham, J., & Shi, Y. (2009). *Responsible competitiveness in China 2009*. London: AccountAbility.

MacGillivray, A., Zadek, S., & Begley, P. (2007). *The state of responsible competitiveness 2008*. London: AccountAbility.

MacGillivray, A., & Zadek, S. (2008). *State of responsible competitiveness (Chinese)*. Beijing: Enterprise Management Publishing House.

MacGillivray, A., Martens, H., Rüdiger, K., Vilanova, M., Zollo, M., Begley, P., & Zadek, S. (2006). Executive summary. In *Responsible competitiveness in Europe: Enhancing European competitiveness through corporate responsibility*. London: AccountAbility. Retrieved from http://www.accountability21.net/uploadedFiles/publications/Responsible%20Competitiveness%20in%20Europe-%20Summary.pdf.

Minority Staff of the United States Senate Committee on Foreign Relations. (2008, October 26). *The petroleum and poverty paradox: Assessing U.S and international community efforts to fight the resource curse.* Report to the members of the Committee on Foreign Relations, United States Senate, 110th Congress, Second Session.

Newton, A. (2006, November 14). *Special Report—Finance—Chinese banks—How the other half lends.* Ethical Corporation. Retrieved from http://www.ethicalcorp.com/content.asp?ContentID=4682.

Rochlin, S., Zadek, S., & Forstater, M. (2008). *Governing collaboration: Making partnerships accountable for development outcomes*. London: AccountAbility.

Rui, H., & Yip, G. S. (2008). Foreign acquisitions by Chinese firms: A strategic intent perspective. *Journal of World Business, 43*(2), 213–226. doi:10.1016/j.jwb.2007.11.006.

Sirkin, H. L., Hemerling, J., Waddell, K., Michael, D., Waltermann, B., Battacharya, A.,... Koh, K. (2007). *The 2008 BCG 100 new global challengers: How top companies from rapidly developing economies are changing the world.* Boston Consulting Group.

Soederberg, S. (2007). Socially responsible investment and the development agenda: peering behind the progressive veil of non-financial benchmarking. *Third World Quarterly, 28*(7), 1219–1237.

Steger, U., Lonescu-Somers, A., & Salzmann, O. (2007). The economic foundation of corporate sustainability. *Corporate Governance, 7*(2), 162–177.

St-Maurice, I., Süssmuth-Dyckerhoff, C., & Tsai, H. (2008, September). What's new with the Chinese consumer? *McKinsey Quarterly*.

Syntao. (2009). *Carbon Disclosure Project 2009 report.* Retrieved from http://www.syntao.com/Uploads/{DE72DF2B-502C-4D02-A114-50C5DFB8B5DC}_CDP%202009%20G500%20Report.pdf.

Tung, R. (2007). The human resource challenge to outward foreign direct investment aspirations from emerging economies: The case of China. *International Journal of Human Resources Management. 8*(5), 868–889.

United Nations Conference on Trade and Development (UNCTAD). (2008). *World investment report: Transnational corporations, and the infrastructure challenge.* Geneva: United Nations.

Witkowski, T. H. (2005). Fair trade marketing: An alternative system for globalization development. *Journal of Marketing Theory and Practice, 13*(4), 22–33. Retrieved from http://www.csulb.edu/~witko/jmtp.fairtrademarketing2.pdf.

Xing, Y. (n.d.). *Reflections on foreign standards and their characteristics.* Military Standardization Information Website. Retrieved from http://www.gjb.com.cn:8080/jybzh/swjx/swjx_detail.jsp?filename=swjx/swjx0101.htm.

Xu, X. (2007). *Chinese NOCS' overseas strategies: Background, comparison and remarks*. Houston, TX: CNPC Research Academy of Economics and Technology, The James A Baker III Institute for Public Policy, Rice University.

Zadek, S. (2007a). *The civil corporation*. London: Earthscan.

Zadek, S. (2001). *Third generation corporate citizenship, discussion paper.* London: Foreign Policy Centre in association with AccountAbility.

Zadek, S. (2007b, November 12). Inconvenient but true: Good isn't always profitable. *Fortune,* 56.

Zadek, S. (2007c). *The logic of collaborative governance: Corporate responsibility, accountability and the social contract*. Working paper No 26. Cambridge: CSR Initiative, J. .F Kennedy School of Government, Harvard University.

Zadek, S. (2006). Responsible competitiveness: Reshaping global markets through responsible business practices. *Corporate Governance, 4*(4), 334–348.

Zadek, S., & Macgillivray, A. (2008, June 22). Responsible competitiveness: Making sustainability count in global markets. *Harvard International Review.*

Zadek, S., Raynard, P., Oliviera, C., de Nascimento, E., & Tello, R. (2005). *Responsible competitiveness: Reshaping global markets through responsible business practices.* London: Accountability.

Zadek, S., Sabapathy, J., Dossing, H., & Swift, T. (2003). *Responsible competitiveness: Corporate responsibility clusters in action.* London: AccountAbility.

Zeng, Z., Wang, S. (2007). *China and the knowledge economy: Challenges and opportunities.* Policy Research Working Paper 4223. Washington, D.C.: World Bank.

Zha, P. (2003, April 14). *China and Globalization 2003/10/10.* Speech at the Chinese Economic Association Annual Conference. Available at http://www.chinese-embassy.org.uk/eng/dsjh/t27161.htm.

Zhang, J., et al. (2005). Transformation of the mode of economic growth and pursuit of a path of new type industrialization. In Wang M. (Ed.), *Important issues regarding China's long-term and mid-term developments from 2006 to 2020*. Beijing: China Development Press.

8.0 Further Reading

AccountAbility. (2003). *Partnership accountability*. London: Author.

AccountAbility. (2004). *Collaborative framework for post-Multi-Fibre Arrangement Activities*. London: Author.

AccountAbility. (2005). *AA1000 stakeholder engagement standard: Exposure draft*. London: Author.

AccountAbility. (2006). *Guidance note on the principles of materiality, completeness and responsiveness as they relate to the AA1000 assurance standard.* London: Author.

AccountAbility. (2007). *Chinese language stakeholder engagement standard: Exposure draft.* London: Author.

AccountAbility. (2008). *AA1000 AccountAbility principles standard.*

AccountAbility. (2008). *AA1000 assurance standard.*

Berrah, N., Feng, F., Priddle, R., & Wang, L. (2007). *Sustainable energy in China: The closing window of opportunity*. Washington, D.C.: World Bank.

Buckley, P. J. (2004). The role of China in the global strategy of multinational enterprises. *Journal of Chinese Economic and Business Studies, 2*(1).

Burgis, T., & Zadek, S. (2006). *Accountability 21: Reinventing accountability for the 21st century*. London: Author.

Clean Clothes Campaign. (2005). *Looking for a quick fix. How weak social auditing is keeping workers in sweatshops.* Bristol, U.K.: Author.

Cohen, J., & Zadek, S. (2003). *Private sector partnerships: A framework for an IFAD strategy* (UN/IFAD).

Forstater, M., Oelschaegel, J., & Sillanpää, M. (2006). *What Assures Consumers?* London: AccountAbility.

GTZ. (2006). *Shaping globalisation: Impacts of voluntarysStandards.*

Gregg, R. J., & Porges, A. (2008). *Amendment to the U.S. Lacey Act: Implications for Chinese forest products exporters.* Washington, D.C.: Forest Trends and Sidley Austin LLP. Retrieved from http://www.illegal-logging.info/uploads/ForestTrendsLaceyChina.pdf.

Guo, P., Zhang, X., Wei, N., & Syn, T. (2008). *Study of sustainability reporting in China: A journey to discover values.* Beijing: Syntao.

Hoebel, T., Schwarting, R., & Welzel, C. (2008). *Scaling up voluntary social and ecological standards*. GTZ.
Hu Xiaoyong. (2006). *Corporate codes of conduct and labour-related corporate social responsibility: Analyzing the self-regulatory mechanisms of multinational enterprises and their impacts to developing countries.* Tokyo: The Japan Institute for Labour Policy and Training.

International Federation of Organic Agriculture Movements (IFOAM). (2006). *The world of organic agriculture—Statistics and emerging trends 2006.* Rome: Author.

International Federation of Organic Agriculture Movements (IFOAM). (2007). *The world of organic agriculture—Statistics and emerging trends 2007.* Rome: Author.

ISEAL. (2006). *Code of good practice for setting social and environmental standards.* London: Author.

Palley, T. (2005). External contradictions of the Chinese development model: Export-led growth and the danger of global economic contraction. *The Journal of Contemporary China, 15*(46).

Roy, A. G., & Van den Berg, H. F. (2006). Foreign direct investment and economic growth: A time-series approach. *Global Economy Journal, 6*(1).

SASAC. *China Ocean Shipping Company Researches Implementation of the United National Global Compact.*

World Economic Forum. (2005). *Mainstreaming responsible investment.* Geneva: Author.

Xin, K., & Yeung, A. (2007). *Go global: The next challenge for corporate China.* Lausanne, Switzerland: IMD.

Zhang, K. (2005a). *China goes global—A survey of Chinese companies' outward direct investments intention*. Vancouver, B.C.: Asia Pacific Foundation of Canada.

Zhang, K. (2005b). *Going global. The why, when, where and how of Chinese companies' outward investment intention*. Vancouver, B.C.: Asia Pacific Foundation of Canada.