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Corporate Social Responsibility and China's Overseas Extractive Industry Operations: Achieving Sustainable Natural Resource Extraction

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Key Points

China's rapidly growing economy has contributed to a dramatic expansion in overseas natural resource exploration. The operations of Chinese extractive companies have led to serious environmental problems and labor-related conflicts in host countries, attracting growing international attention.

- The development of Chinese multinational corporations has a comparatively short history, and corporate social responsibility (CSR) is a new concept in China.
- Chinese overseas extractive industries have expanded dramatically. Africa, Asia, and Latin America have been crucial parts of China's global natural resource exploration strategy.
- There is some progress in promoting responsible and sustainable business activities in China. The Chinese government, some Chinese corporations, and civil society have promoted and advocated various CSR practices at home in recent years.
- Most Chinese overseas extractive corporations are state-owned, giving the Chinese government direct and significant influence on Chinese overseas natural resource industries. Because of its high-profile need to maintain energy security, and concern for its national image, the Chinese government is expected to be more active in promoting CSR practices.
- From the standpoint of global competitiveness, Chinese overseas corporations have to be concerned with the environmental and social impacts of their business practices in order to develop a positive corporate reputation in the global market.
- Chinese civil society and academia have played a significant role in increasing public awareness of CSR, and their influence can be expected to grow in the future.

Introduction

China's economy has grown dramatically during the past three decades, and its expanding engagement in the global market has captured world attention. By the end of 2006, approximately 10,000 Chinese overseas enterprises were established in 172 countries (Ministry of Commerce PRC 2006). The global presence of Chinese enterprises is growing rapidly in several sectors, such as manufacturing, natural resources, agriculture, infrastructure, telecommunications, and information technology. Among these growing sectors, the development of Chinese overseas extractive companies is the most impressive. Meanwhile, there has been much international criticism that Chinese overseas extractive practices have resulted in environmental harm and social instability in host countries.

This FESS *Issue Brief* will focus on the practice of corporate social responsibility (CSR) by Chinese overseas extractive companies. It was only within the last three decades that China began to develop modern corporations, and the development of Chinese multinational corporations has an even shorter history. CSR is a relatively new concept in China, and although some progress has been made, its promotion in the Chinese domestic market is still in the early stages. The development of CSR in Chinese overseas investments is further behind. Environmental damage and social instability resulting from Chinese overseas natural resources exploration are emerging problems. Currently, there is insufficient attention to these problems in China; however, they have been the subject of growing international concern.

To provide context, the first part of this *Issue Brief* is a background discussion of CSR development among Chinese domestic corporations. The second part of the paper will introduce the development of Chinese overseas investments in extractive sectors; discuss the current CSR problems of Chinese overseas natural resource exploration; and examine the impact of the Chinese government, corporations, civil society, and academia on promoting responsible Chinese overseas extractive industries.

Definitions of CSR

Various organizations around the world define CSR differently (See Table 1). Generally, however, all of these definitions stress that corporations should take into account the economic, environmental, and social impacts of their business practices. For example, the World Bank states that CSR means "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development" (Umeda 2004). The European Commission defines CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (Umeda 2004). The Chinese government uses a similar definition of CSR. In a recent CSR policy document issued by the government, CSR is explained as follows: "corporations should carry out their social responsibilities by abiding by all relevant laws, regulations, social norms, and business ethics codes. While pursuing economic profits, corporations are responsible for protecting the interests of shareholders, employees, consumers, suppliers, communities, and other stakeholders. Moreover, corporations have responsibilities to protect the environment" (SASAC 2008a). This *Issue Brief* will use the definition of CSR adopted by the Chinese government.

Table 1

Organization	CSR Definition
World Bank Group	The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development.
European Commission	A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.
UK Government	CSR is about how business takes account of its economic, social, and environmental impacts in the way it operates—maximizing the benefits and minimizing the downsides. CSR is the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society.
Chinese Government	Corporations should carry out their social responsibilities by abiding by all relevant laws, regulations, and business ethics codes. While pursuing economic profits, corporations are held responsible by shareholders, employees, consumers, suppliers, communities, and other stakeholders. Moreover, corporations have responsibilities to protect the environment.

Growth of CSR in China

Although the term CSR was widely used in other countries as early as the 1970s, it is a relatively new concept in China. Modern corporations in China have had a very short history, beginning only in the early 1980s when the country embarked on market-based economic reform. At today's early stage, the effort to combine "maximizing profits" and "being environmentally and socially responsible" is a major challenge for Chinese corporations. While corporations in developed countries started adopting CSR policies after decades of operation, modern Chinese enterprises have had to take CSR into account during the early stage of corporate development in order to meet the requirements of the modern global marketplace (Zheng 2007). In recent years, the Chinese government, some Chinese corporations, and civil society have promoted and advocated various CSR practices.

The Chinese government is playing an increasing role in promoting CSR development at home. President Hu Jintao's 2005 statement declaring the country should construct a 'harmonious society,' the widely publicized socio-economic goal of the Chinese government, provides a favorable political and social environment to encourage CSR development. President Hu stated at the Central Government Economic Working Conference in 2006 that the government should encourage corporations to establish modern business values and to assume social responsibility.

A number of laws, regulations, and policies related to CSR have been issued in China. In 2005, China developed its first CSR management standard, "the China Social Compliance 9000 (CSC 9000)," for the textile industry. The standard has obtained worldwide recognition. For example, the World Bank included the CSC 9000 in its "Key Corporate Responsibility Codes, Principles, and Standards" as an example of a country-specific set of standards (Sun 2006). The new Corporate Law, which went into effect January 1, 2006, states that corporations in China should carry out social responsibilities. In addition, the Shenzhen Stock Exchange released the "Social Responsibility Guidelines for Listed Companies" in September 2006.

Listed companies are encouraged to follow its CSR mechanisms and develop CSR reports according to this guideline (Yin et al. 2007). More recently, in early 2008, the State-owned Assets Supervision and Administration Commission (SASAC) issued "the Guiding Advice on Fulfilling Social Responsibility by Central Enterprises." This guideline stresses the exemplary role that central corporations should play in carrying out social responsibility, and includes principles and implementation measures of CSR development (SASAC 2008b).

Chinese government officials have become active in CSR events and activities. For example, at the Corporation, CSR, and Soft Competence Summit of 2006, Yi Xiaozhun, Associate Minister of Commerce, stated that the Chinese government is developing CSR standards that fit China's current situation and that CSR was one of the priorities of the Ministry of Commerce (*People's Daily Online* 2006).

A growing number of Chinese companies also have become aware of the need to develop responsible business operations. The number of companies in China developing CSR reports is growing. Before 2005, some Chinese companies reported their CSR information as part of their annual financial report. For example, the China National Petroleum Corporation (CNPC) released its first financial report in 1996 covering safety, health, and environmental information. Since 1999, CNPC added information about employees and philanthropic activities to its financial report (Yin 2007). In 2005 and 2006, the major state-owned corporations, such as the CNPC and the China Petrochemical Corporation (Sinopec), started establishing CSR reporting mechanisms and releasing their first independent annual CSR reports. Generally, these reports include companies' practices and achievements in carrying out their economic, environmental, and social responsibilities. The reports are prepared in accordance with international CSR reporting standards, such as the Global Reporting Initiative (GRI). There were approximately 34 Chinese corporations developing CSR reports as of June 2007, and 80 percent of them were state-owned companies. Additionally, Chinese corporations actively have participated in domestic and international CSR events and conferences, such as the China CSR International Forum (Beijing 2008), the UN Global Compact Summit (Geneva 2007), and the Sino-European CSR International Forum (Beijing 2005).

Non-governmental organizations, academia, and the media all have played a significant role in raising public awareness regarding responsible business practices. First, in recent years, the political and social environment for NGOs in China has become more open as the Chinese government is beginning to realize the positive impacts of NGOs (Goh 2007). Generally, there are two kinds of NGOs in China: government-organized NGOs (GONGOs) and grassroots NGOs. Some scholars point out that GONGOs are not "pure" NGOs because of their close relations with the government; however, about 60 percent of Chinese NGOs are GONGOs (Wang 2007), and their impact cannot be overlooked.

The Multinational Corporations Research Center of the Ministry of Commerce is an example of some of the CSR work underway in China. The center has done extensive research on CSR development in China (in 2006, it organized the Chinese Corporations, Corporate Responsibility, and Soft Competence Summit). A number of high-profile Chinese officials and corporate representatives, including Wu Yi, Huang Ju, and Zeng Peiyan (vice prime ministers), Wang Ruixiang (the associate director of SASAC), and Fu Yucheng (the president of the China National Offshore Oil Corporation), attended the summit and engaged in discussions on CSR, corporate citizenship, and global economic competition.

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At the same time, Chinese grassroots NGOs are encouraging greater responsibility and sustainability of business practices in China. The China Corporation Social Responsibility Alliance (CSRA) is one example. CSRA is an independent nonprofit organization dedicated to raising awareness about responsible business practices in China. CSRA has developed an online CSR forum to disseminate relevant news and information and to stimulate greater communication and cooperation among various stakeholders on CSR issues in China.

Multilateral institutes and international NGOs also have been involved actively in promoting CSR in China. For instance, the United Nation's CSR initiative, Global Compact, has had widespread impact in China. About 90 Chinese companies have joined this initiative. In 2007, 104 Chinese representatives attended the Global Compact Leaders Summit in Geneva, Switzerland. At the Summit, the Chinese delegation organized the China Global Compact Network Conference to discuss China's CSR development and exchange experiences with representatives from other countries.

Think tanks and higher education institutes are providing a theoretical foundation for CSR practices in China. The main participating institutions include the Chinese Academy of Social Science, the Chinese Academy of International Trade and Economic Cooperation (Ministry of Commerce), the NGO Research Institute of Tsinghua University, and the Beijing Dajun Economic Observation and Research Center. CSR scholars have produced numerous publications and actively attended CSR events to deepen the CSR discussion in China.

CSR also has attracted significant public attention though the media. For example, the *China WTO Tribune* organized the first Sino-European CSR International Forum in 2005 to deepen the dialogue among the Chinese government, business, and NGOs and to raise public awareness of CSR across China. Also in 2006, the *China WTO Tribune* held the CSR International Forum in Shanghai to encourage further discussions among various stakeholders. *China News Week* also organized the China CSR International Forum in 2006 to encourage the development of responsible business practices; *China Daily*, another widely read newspaper, has hosted the CSR roundtable conference several times.

CSR Development in Chinese Multinational Companies

Although the progress of China's CSR development is encouraging, it is necessary to realize that most of the current CSR discussions in China focus on domestic companies, including the operations of foreign companies in China. However, as Chinese overseas investment expands significantly, especially in the extractive sectors, the non-economic aspects of overseas business activities are beginning to attract attention.

From Domestic Development to "Going Out"

According to Zhang Junhua, a professor of political science at Zhe Jiang University (China), it was only within the last decade that China began to invest overseas. Deng Xiaoping, the former leader of China, maintained that China should concentrate on building its domestic market and avoid attracting global attention. This development policy did not change much in the 1990s. In 2000, the Chinese government proposed the "Going Out" strategy to encourage the overseas investments of Chinese enterprises. Exploration of the global market formally became one of the government's priorities at the Sixteenth Communist Party Central (CPC) Congress in 2003.

The scale of China's overseas investment is still relatively small. According to statistics from the Ministry of Commerce, China's foreign direct investment (FDI) stock volume was US$90.63 billion by the end of 2006, which only accounted for 0.85 percent of the world's total. In comparison, the U.S. FDI stock was US$2,051.28 billion, the U.K. reached US$1,238 billon, and Germany stood at US$967.3 billion. Additionally, most of China's FDI focuses on a few industries, such as mining, business services, transport services, and manufacturing (MOC 2006). Chris Alden, a scholar at the London School of Economics and Political Science, notes that Chinese multinational corporations are only competitive in the sectors of energy and heavy industry (Alden and Davies 2006).

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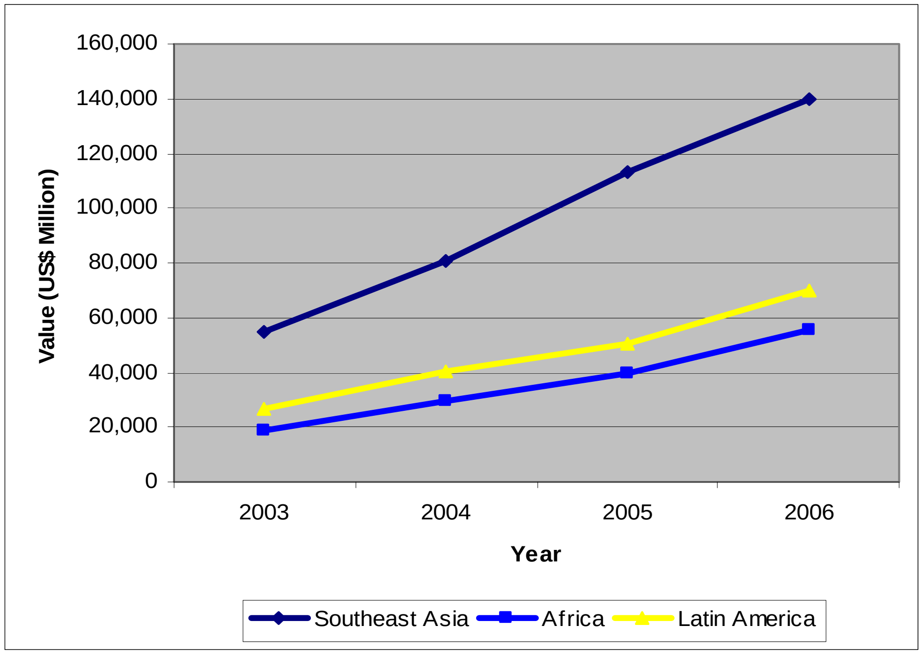
Development of Chinese Overseas Extractive Industries

The current global market share of Chinese corporations is small; however, its pace of expansion is astounding, especially in the extractive sector. China has engaged actively in international energy trade and overseas natural resources exploration to meet its rapidly increasing energy demand. In 2006, China became the world's largest oil consumer and third-largest oil net importer. According to the International Trade Center's statistics, in 2005, China was the world's largest importer of copper and iron, and the third-largest nickel importer. The Ministry of Commerce's data show that China overseas investment increased by 72.5 percent in one year (2005–2006), and mining industries (oil, gas, and minerals) account for about half (48 percent) of China's non-finance FDI.

Africa, Asia, and Latin America all have been crucial parts of China's global natural resource exploration strategy because of their rich mineral deposits. China became Africa's second-largest trading partner in 2007, and Sino-African trade in 2007 amounted to US$70 billion, increasing by 32.7 percent compared to 2006 (China Customs Statistics 2007). Natural resources, oil in particular, dominate the trade between China and Africa. It is estimated that about 70 percent of African exports to China are oil exports. China's FDI in Africa quintupled from 2003 to 2006 (MOC 2004; MOC 2006), and more than 800 Chinese companies had established branches in multiple African countries as of 2006 (Ji and Lin 2007).

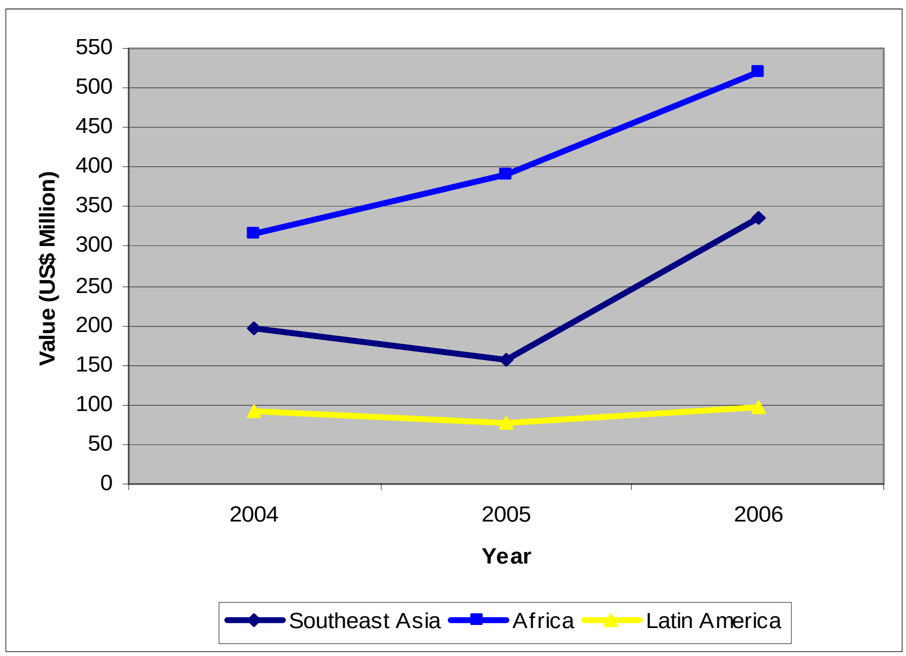
As for Latin America, the bilateral trade between China and Latin

Figure 1 China's bilateral trade



Source: ASEAN statistics (Southeast Asia) and China Customs Statistics (Africa and Latin America) 2006

Figure 2 China's FDI



Source: MOC FDI Statistics Report 2006
* The data for Latin America in this chart does not include the Cayman Islands or the British Virgin Islands

America reached US$102.6 billion in 2007, a 150-percent increase in three years (*Xinhua News* 2008). China has become Latin America's second-largest oil importer. Chile and Peru alone account for about 50 percent of China's copper imports (Caspary 2008). Latin America was China's number one investment recipient in 2006, making up 48 percent of China's overseas non-financial investments (*Sinocast China Business Daily News* 2007). In 2004, President Hu announced that China's investment in Latin America would reach US$100 billion in 10 years (Dumbaugh and Sullivan 2005).

China also has considerable influence in Southeast Asia. China's FDI in this region increased by 86.6 percent from 2005 to 2006, and the bilateral trade between China and Southeast Asia has grown from US$54 billion in 2003 to about US$140 billion in 2006 (ASEAN 2006). China is sourcing a wide range of mineral resources from the region. For example, China is Myanmar's second-largest trading partner and its sixth-largest foreign investor. Myanmar's official figures show that Chinese investment projects are mainly in hydropower, oil and gas, and the manufacturing and mining sectors (*BBC Monitoring Asia Pacific* 2007). Chinese investment in Vietnam increased dramatically from US$66 million to US$312 million between 2005 and 2006 (*The Nation (Thailand)* 2007), and Vietnam is a key coal provider for China. Chinese enterprises also have huge investments in Laos, Cambodia, and Indonesia in oil, gas, gold, copper, iron, potassium, and bauxite extraction.

Irresponsible Natural Resource Exploration

As Chinese overseas businesses expand dramatically, there is growing criticism regarding the negative impacts of Chinese multinational corporations on the environment and societies of host countries. For instance, according to Chinese CSR scholar Zhong Hongwu, by June 12, 2007, the United Press International had published more than 6,000 news reports regarding CSR problems in Chinese overseas enterprises. Among them are 2,147 reports of human rights problems, 1,582 reports of labor problems, 1,408 reports of corruption, and 1,655 reports of environmental problems (Zhong and Yang 2007). These figures may be incomplete; yet, it indicates that the problems associated with Chinese overseas companies have received a great deal of attention from the international media.

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Environmental damage, poor salaries and working conditions, lax safety standards, and the failure to employ local workers in host countries are leading to rising tensions between Chinese companies and local communities. Local people have complained that Chinese investments do not improve their lives. Frequent protests, violence, and assaults on Chinese overseas businesses indicate mounting local resentment. The Niger Delta is a case in point. Most residents in the Niger Delta region live in extreme poverty in spite of abundant oil resources. Environmental devastation resulting from extractive industries and unfair distribution of oil wealth have contributed to decades of intensive conflict between, on one side, local people and the Nigerian government and foreign investors on the other. In 2006, the Movement for the Emancipation of the Niger Delta engaged in bombings against Chinese investments in the region and announced that, "We wish to warn the Chinese government and its oil companies to steer well clear of the Niger Delta. Chinese citizens found in oil installations will be treated as thieves. The Chinese government, by investing in stolen crude, places its citizens in our line of fire" (Timberg 2006).

Chinese investments have led to many serious environmental problems. For example, in 2002, Sinopec's oil prospecting activities in Gabon lead to the dynamiting and polluting one of Gabon's nature reserves, deforestation resulting from road building, and damage to the habitat of plants and animals (Taylor 2007). The US$83 million contract between CNPC and Peru in 2005 allowed China to search for oil in the country's southeastern rainforest area, which has caused a great deal of controversy regarding potential biodiversity damage by oil extraction in this region (Butler 2005). China also is a major destination of illegal timber. According to Ian Taylor, China has sourced illegal timber from Cameroon, Congo, Equatorial Guinea, Gabon, and Liberia, contributing to local environmental damage in these countries (Taylor 2007).

Labor-related conflict is another serious problem in Chinese overseas businesses. Zambia's Chambishi mine is a case in point. In 2005, 51 Zambian miners were killed in a blast at the mine; critics pointed out that the accident largely was due to the Chinese company's mismanagement and lax safety standards. In 2006, a violent protest over poor working conditions at the mine broke out, with five miners shot dead by the police (*BBC Worldwide Monitoring* 2007). President Hu Jintao's trip to the Chambishi mine was cancelled in 2007 due to the unrest (Trogimov 2007). In 2008, a Chinese manager was assaulted by miners requesting better working conditions at the mine site (*BBC News* 2008).

Additionally, in the global marketplace, multinational corporations are encouraged to enlarge their local hiring in order to support the development of host countries; however, there is much criticism in the international community regarding the limited hiring of local workers in Chinese overseas companies. According to Michael Sata, the leading challenger to President Mwanawasa in the 2006 election in Zambia, Chinese investments have not created many employment opportunities for Zambians. According to one estimate, the ratio of Zambian workers to Chinese workers in a Chinese company is about 1:15 (IRIN 2006).

Past experiences show that it takes time for multinationals to adapt to host country societies and culture. Chinese overseas corporations are still in an early stage of development, and compared to European and U.S. investors, the language barrier makes it even more difficult for Chinese investors to develop close relations with local communities. Some scholars from South Africa have noted that, at the current stage, Chinese companies hire Chinese labor because African workers lack the skills and qualifications required to perform the work (Davies et al. 2008). Whether or not this is the case, it is reasonable to expect Chinese companies in the future to increase investments for local employee training, to break cultural barriers, and to build trust with local customers and employees. In fact, there already has been some progress. For example, according to the CNPC 2007 CSR report, in Kazakhstan, 90 percent of CNPC's employees are hired locally, and Kazakh management personnel account for 60 percent of department managers of CNPC's Kazakhstan projects (CNPC 2007). This pattern needs to be replicated elsewhere.

Progress and Further Development of China's Overseas CSR Practices

Because of the growing problems in many of the countries in which it operates, China has started considering corporate social responsibility in its overseas operations. The development of CSR in Chinese multinational corporations depends on several institutional factors, including the roles of the Chinese government, corporations, civil society, and academic institutions. The remainder of this article will discuss each of these in promoting responsible and sustainable overseas natural resources exploration.

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The Chinese Government

One of the most significant characteristics of Chinese overseas extractive industries is that most corporations in this sector are state-owned, meaning that the Chinese government has a direct impact on the companies' operations. Accordingly, the role of the government in promoting CSR practices by multinational companies is crucial.

Chinese Overseas Extractive Companies

Under its completely planned economy prior to 1978, China was isolated from the global market. The Chinese government established some large-scale enterprises to undertake important national economic responsibilities, including CNPC and Sinopec. At that time, the corporations' production and sales were completely arranged by the government. China began to marketize its economy in 1978, and with that began the development of modern Chinese corporations. In the 1980s, China introduced a significant amount of foreign equipment and technology to support the reform of its state-owned enterprises. It was not until the 1990s that Chinese companies started to build modern corporate governance structures and the Shanghai and Shenzhen stock exchanges were established, with the major state-owned corporations becoming the first to be listed on these exchanges.

After about three decades of reform, the business model of Chinese state-owned enterprises (SOE) is similar to that of large companies in developed countries, although some scholars have pointed out that the SOEs still largely are controlled by the Chinese government (Jia 2004). According to the "Interim Measures for the Supervision and Administration of State-owned Assets," in the sectors that are crucial for the national economy, such as infrastructure and natural resources, the State Council plays the key role in investment and oversight. In 2003, the State Council established the State-owned Assets Supervision and Administration Commission (SASAC) to exercise its responsibilities as the majority shareholder. The SASAC directs the reform and restructuring of state-owned and state-controlled enterprises; appoints, removes, and evaluates the head of enterprises; and dispatches supervisory boards to large-scale enterprises (SASAC 2003). The top executives of Chinese state-owned energy corporations are expected to take national interests as the top priority while improving the economic performance of the companies (Downs 2006).

> "Concerns about national image and energy security provide a compelling logic for the Chinese government to develop responsible overseas CSR."

Overseas energy investment projects of US$30 million or more require approval from the National Development Reform Commission (NDRC) and the State Council (Downs 2006). The Ministry of Commerce (MOC) is responsible for regulating Chinese overseas investments. All Chinese companies that conduct overseas mineral resource explorations are required to register with MOC and the Ministry of Land and Resources (MOC 2004). The MOC also is in charge of formulating foreign aid policies and administering foreign aid projects. The China Exim Bank is a central government-owned policy bank, and its major responsibility is implementing the state policies in industry, trade, diplomacy, and economy. The bank promotes exports of Chinese products and supports Chinese overseas investments and offshore construction projects through loans, export and import credits, and international guarantees.

The Chinese government supports Chinese overseas companies in various ways. First, the government provides loans to SOEs for their overseas investment projects through the China Exim Bank. For example, the government offered the Chinese National Offshore Oil Corporation a loan of US$1.6 billion for the company's Nigeria project at a below-market interest rate. In addition, the Chinese government provides a large amount of aid and economic assistance to the host countries of China's overseas investments, which helps SOEs secure their investments abroad. Sinopec's investment in Angola is a good example. According to Chinese and international observers, Sinopec was able to win stakes in the Angolan oil block largely because of China's extraordinarily large economic support for Angola's infrastructure construction and public health programs. In 2004, Angola obtained a US$2 billion soft loan from the China Exim Bank at a very low interest rate to rehabilitate its infrastructure, which had been devastated during the civil war (Downs and Thornton 2006).

Moreover, the Chinese government has put great emphasis on its "energy diplomacy policy" to maintain positive longstanding relations with African countries in recent years, which provide a favorable political environment for the overseas investments of Chinese companies.

In short, the government has a direct and significant influence on Chinese overseas extractive industries, and without the support from the government it would be extremely difficult to promote CSR in Chinese multinational corporations.

The Chinese Government and CSR

Concerns about national image and energy security provide a compelling logic for the Chinese government to develop responsible overseas CSR. First, the environmental and social problems surrounding Chinese overseas projects tarnish China's national image. China has been criticized as the "new colonialist" and "exploiter" because of irresponsible business practices. As its national economy booms, the Chinese government also is seeking to build a positive international image. Being a "responsible emerging power" in the world has become a common theme of public discourse in China. Wei Jianguo, the associate minister of commerce, noted at a conference in 2007 that Chinese companies in Africa should take into consideration not only their economic interests but also the country's image and corporate social responsibilities (MOC News Office 2007).

In addition, the Chinese government needs to encourage the development of CSR because irresponsible overseas extractive practices threaten China's energy security. China's domestic resources cannot meet the increasing energy demand, so overseas extractive industries are vital to the stability of the country's energy supply. Half of China's oil consumption relies on imports, and China's energy consumption growth from 2000 to 2005 accounted for about 50 percent of the world energy growth in that period (Downs 2006). President Hu Jintao declared at the 17th CPC National Congress that China is set to quadruple GDP per capita by 2020, which indicates that China's demand for natural resources also will grow substantially. Irresponsible natural resource exploration leads to conflicts and resentment between Chinese companies and host communities, which can significantly threaten the stability of Chinese overseas natural resources supply. For example, in Peru, 800 iron ore miners who worked for the China Shouda Iron and Steel Group began a large-scale strike in June 2006 due to wages that were much lower than the average Peruvian mining salary (ICEM 2006). The eight-day strike resulted in substantial economic losses. It is estimated that the output loss was about 18,000 tons of ore, and the economic loss around US$400,000 (*Xinhua News* 2006). In Zambia, Michael Sata, the leading challenger to President Levy Mwanawasa in the 2006 election, threatened to kick Chinese companies out of the country because Chinese businesses did not add value for the people of Zambia (Africabeat 2006). Although Sata lost the election, he won support from areas where most Chinese investments are located (Blair 2006). These examples confirm that the Chinese government will need to promote environmentally and socially responsible practices by its multinational corporations in order to secure its overseas investments.

However, the situation is complicated by the fact that state-owned companies can secure financing for their overseas projects from the Chinese government, decreasing the pressure to develop responsible business practices. Several studies address the issue of whether state-owned corporations are more likely to promote CSR than private companies. In general, they have shown that state-owned corporations are likely to have poorer environmental performance than other types of companies in China, because state-owned corporations usually have lower economic efficiency and stronger bargaining power with the government agency (Wang and Jin 2006).

As discussed in the previous section, China's aid policy and overseas extractive investments are closely related. The comprehensive foreign aid packages from the Chinese government give a significant competitive advantage to Chinese state-owned companies in the international marketplace. As Joshua Eisenman and Joshua Kurlantzick have pointed out, increasing aid and economic assistance is one of China's approaches to obtaining African natural resources, developing Sino-Africa trade, and winning political support (Eisenman and Kurlantzick 2006). China's comprehensive aid package helps Chinese multinational corporations in Africa secure their investments; however, to some degree, it also gives companies a chance to evade the pressure to develop responsible business practices.

Progress in CSR Development

There are indications that the Chinese government is beginning to adopt positive attitudes toward promoting responsible overseas investments. High-profile Chinese officials have stressed the importance of developing responsible overseas investments. For example, during his state visit to Namibia in 2007, President Hu Jintao noted that Chinese enterprises in Africa should assume corporate social responsibility to promote long-term development of Chinese-African relations. At the Fourth Chinese Corporation and 'Going Out' Strategy Implementation Forum, Wang Chao, the assistant minister of commerce, suggested that Chinese multinational corporations need to balance conflicting interests among corporations, home countries, and host countries, and that profit is no longer the sole objective of business operations. Additionally, the Chinese government has taken some actions to ease tensions between Chinese businesses and local communities. The Chinese deputy minister of commerce, Gao Hucheng, assured Zambian workers when he visited the Chambishi Copper mine that 1,500 jobs would be created and that most of the jobs would be for Zambians (*Times of Zambia* 2008). Additionally, Chinese companies signed a new agreement with the Democratic Republic of Congo on a copper mining project whereby the proportion of Chinese workers would not exceed 20 percent. In addition, it was agreed that 0.5 percent of all investment would be spent on training and technology transfer, and 3 percent of the total investment would be allocated for local community development (Komesaroff 2008). Moreover, the China Exim Bank adopted its first environmental policy on overseas funded projects in 2004 and publicly released this policy in 2007. According to a report from the Center for Global Development, although the environment policy is very broad, it indicates China Exim Bank's willingness to mitigate the negative environmental effects of its overseas projects (Rose 2007). This policy, the statements by government leaders, and efforts to increase local employment are all important steps toward achieving the goal of increasing host country benefits and the sustainability of Chinese overseas investments.

Corporations

Chinese corporations are influenced significantly by the government; on the other hand, for business entities, increasing profits and international competitiveness are the most important considerations for overseas investments. Chinese SOEs need to meet the requirements of the global marketplace to compete with companies from other countries. The standards set for Chinese companies are similar to those placed on companies from developed countries. However, in the modern international economy, profits are necessary but not sufficient; there also is growing demand for responsible business practices. Business reputation is the most valuable asset of a company in today's market system. Irresponsible environmental and social practices can damage severely a corporation's image.

Most major multinational corporations state their CSR values, standards, and performance on their website. More than half of the Fortune 1000 companies develop CSR reports (Tsoutsoura 2004), and most of them are publicly accessible. Some companies include CSR as a part of their corporate mission/value statement. BP began reporting its non-financial information in 1991; Shell started releasing its sustainability reports in 1997; and Chevron's first corporate responsibility report was developed in 2002. All the major oil companies (e.g., Shell and BP) state on their homepage that they aim to produce the energy the world needs in an economically, environmentally, and socially responsible manner. Moreover, there are a great number of organizations, scholars, and activists promoting responsible business practices.

An increasing number of guidelines and standards have been developed and widely used by corporations, including the Sustainability Reporting Guidelines (G3 guideline) of the Global Reporting Initiative (GRI), the AA1000 standard of AccountAbility, the

"Many companies have established their objectives of becoming world class multinational corporations. As Mark Qiu, Senior Vice President and CFO of the CNOOC Ltd., said, 'We have to learn to play world club; you can't just play domestic league'"

SA8000 standard of the Social Accountability International, and the United Nations Global Compact. The G3 guideline developed by the GRI is one of the most widely used sustainability reporting frameworks. More than 1,500 companies develop their CSR reports based on the G3 guideline, including such leading companies as the Shell group, BP, and Chevron. The Global Compact is another worldwide initiative developed by the United Nations to encourage sustainable and socially responsible business practices. Over 2,000 companies from more than 80 countries have participated in the Global Compact (The Global Compact Office 2005). Furthermore, it has become clearer that adopting CSR can increase corporate competitiveness in the global market. According to Novozymes, a world leader in bio-innovation, responsible business practices help corporations enhance brand image and reputation, attract and retain employees, increase customer loyalty, and build trust between corporations and local communities (*Sina Finance* 2005). A study from the Hass Business School at UC Berkeley also shows that there is a positive relationship between CSR and financial performance (Tsoutsoura 2004).

After achieving large profits in the domestic market, a growing number of Chinese companies, including extractive companies, are entering the global market. Many companies have established their objectives of becoming world class multinational corporations. As Mark Qiu, Senior Vice President and CFO of the CNOOC Ltd., said, "We have to learn to play world club; you can't just play domestic league" (Balfour 2002). On the international stage, companies' practices are restricted by global market rules. Wang Zhile, the Director of the Multinational Corporation Research Center of the Ministry of Commerce of the PRC, believes that without realizing the importance of CSR, Chinese corporations cannot enter the global marketplace, and the government's "going out" policy will not work.

Chinese multinational enterprises are playing an increasingly active role in CSR development. For example, 67 Chinese corporations, including the China National Offshore Oil Corporation (CNOOC), CNPC, and Sinopec, jointly developed an operational guideline for Chinese overseas investments in Africa to establish the awareness of corporate responsibility and develop harmonious China-Africa economic relations. CNPC, Sinopec, and other Chinese multinational companies included overseas performance as part of their annual CSR reports. The sections covering overseas CSR issues constitute a larger proportion of the CSR reports in 2007 than in 2006.

Civil Society and Academia

Civil society and academia in China have played a significant role in increasing public awareness of the environmental and social responsibilities of businesses operating in the domestic market. There is reason to believe they may influence China overseas investments in similar ways, and Chinese civil society and academia have begun to pay attention to overseas investments. For example, 14 scholars from the Chinese Academy of Social Sciences and other Chinese think tanks attended 3 meetings of the Africa-China-U.S. Trilateral Dialogue from 2006 to 2007 to discuss with their African and American counterparts the influence of overseas investments in Africa, CSR, national energy strategies, and trade. The Global Environmental Institute, a Beijing-based environmental NGO, launched the project on Integrated Policy Packages: Balancing Economic and Eco-environmental Impacts of Chinese Overseas Enterprises in 2007. The GEI and the Chinese Academy for Environmental Planning (the Ministry of Environmental Protection of PRC) jointly developed the "Environmental Guidelines for Overseas Aid and Investment." Additionally, a number of academic papers focusing on overseas CSR have been published, including CSR of Chinese Companies Abroad and a Harmonious World (Liang Xiaohui 2007) and CSR Concept Frame for Multinational Corporations (Cui Xinjian 2007). The influence of civil society and academia on China's CSR practices overseas can be expected to increase.

Conclusion

The resource-rich continents—Africa, Latin America, and Asia—have suffered for many years from severe environmental damage and social instability associated with irresponsible natural resource exploration. There is a growing demand for responsible and sustainable extractive activities. Without sound environmental and social practices, it will become increasingly difficult for Chinese extractive companies to secure their overseas investments. There is a long way to go to achieve responsible overseas extractive practices for Chinese multinational companies. The Chinese government plays a significant role in this process. Previous research shows that state-owned corporations are more immune to the pressure to increase the sustainability and responsibility of their investments than private companies because of their strong relations with the government; however, it is reasonable to expect that the Chinese government will be more active in encouraging the development of CSR because irresponsible overseas extractive practices will damage China's national image and threaten its energy security. In addition, Chinese corporations are facing pressure from the global marketplace to adopt CSR policies in order to participate in the international economy. Civil society and academia are seeking to raise the awareness of the public and corporations regarding the need for responsible and sustainable overseas natural resource exploration by China.

As China's economy continues to grow, more Chinese companies from non-extractive sectors will build global businesses. As part of the common business principles of the modern global economy, CSR is not specific to a single sector. Responsible business practices are in the best interests of China for developing competitive multinational corporations in a global marketplace, and China's adoption of CSR can be expected to expand in both overseas extractive industries and other corporate operations.

Endnotes

1. Most of Chinese FDI in Latin America goes to the Cayman Islands and British Virgin Islands.

2. Southeast Asia in this *Issue Brief* refers to the ASEAN countries, including Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, and Cambodia.

3. The State Council takes the investor responsibilities in state-owned corporations, partially state-owned corporations, and state-controlled corporations.

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