

The Emerging Discourse of CSR in China



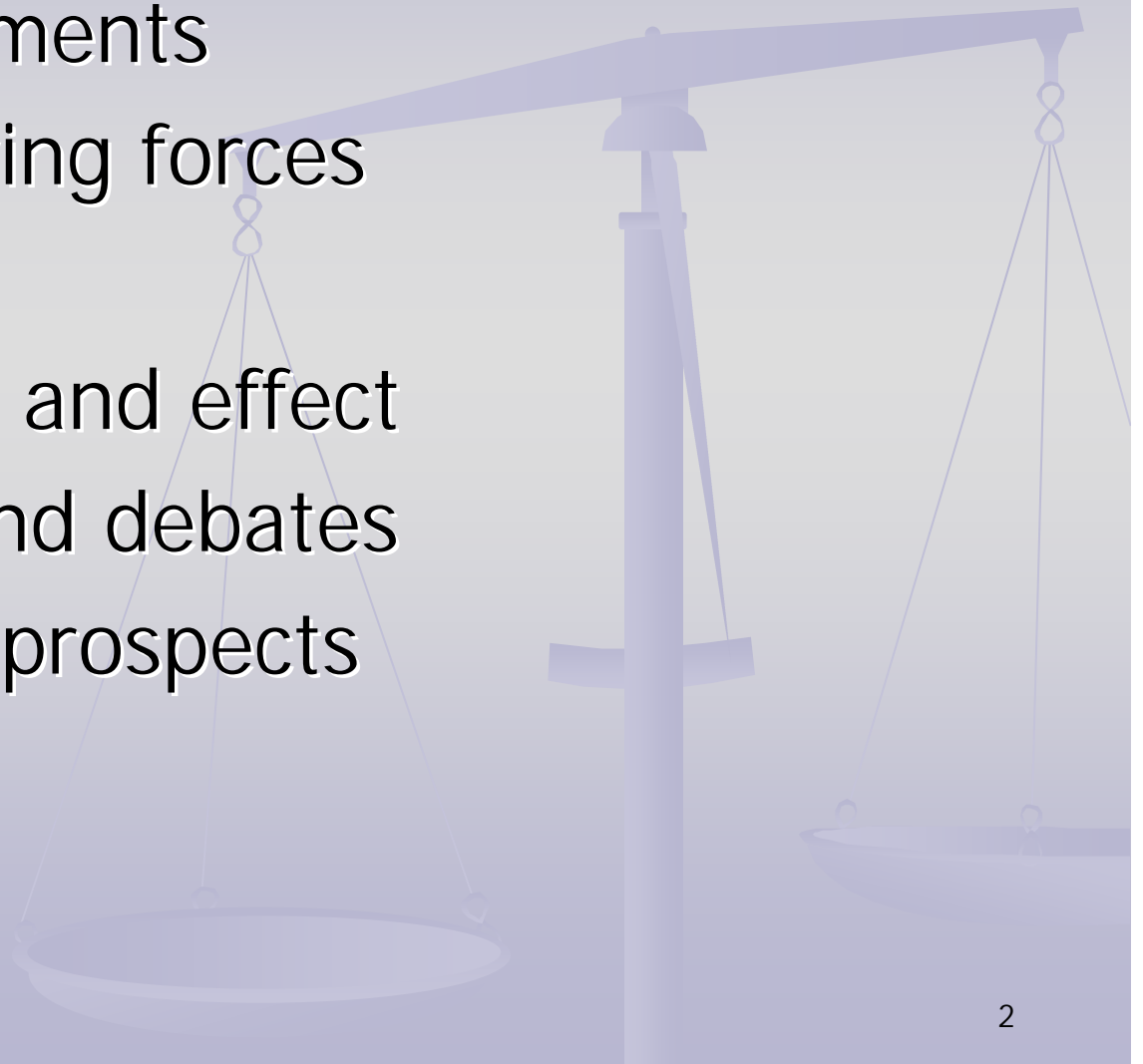
**“Risky Business?
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**LENG Jing
Post-doctoral Fellow
Department of Law, HKU (jingleng@hku.hk)**

Issues of Importance

- Recent developments
- Causes and driving forces
- Major players
- Implementation and effect
- Controversies and debates
- Challenges and prospects



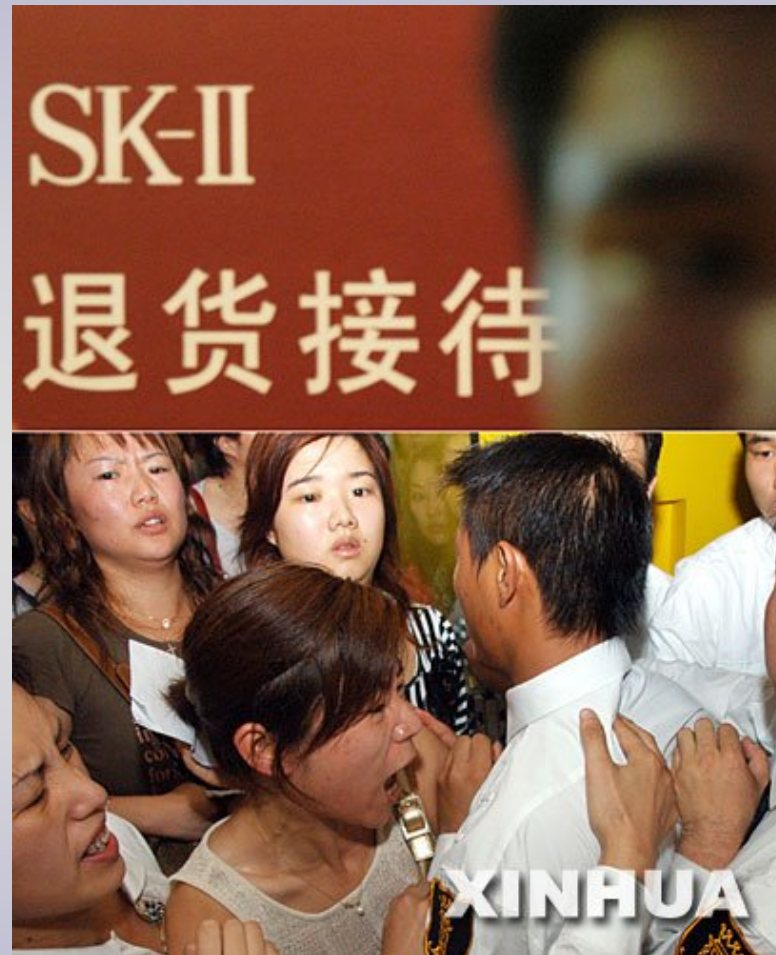
Three High Profile Incidents

- SK-II product withdrawal
- The “iPod City” controversy
- ACFTU success at Wal-Mart

What's at issue?:

- Consumer rights: product safety
- Labor rights and working conditions
- (Politically-charged?) Unionization

SK-II Product Withdrawal



September 21 - customers lining up to return SK-II in Shanghai at a temporary site for returned goods.

SK-II Product Withdrawal

- SK-II product withdrawal: over allegations that some cosmetics contain chromium (鉻) and neodymium (釹) in potentially harmful quantities.
- **Response of P&G:** has suspended sales of SK-II skincare line in China, pending clarification from China's quality watchdog over traces of possibly harmful metals.
- **Public criticism:** stringent position on denial of product hazard viewed as act of “arrogance” and “failed PR risk management”

The iPod City: “Sweatshop” in Display?

- iPod carrying text: “Designed in California. Made in China.”
- The tough conditions Chinese iPod workers endure: (*The Mail on Sunday*, England, 11 June 2006)
- The Foxconn-*CBN* dispute: Apple investigating a *CBN* report that staff in some of its Chinese iPod factories work long hours for low pay and in “slave” conditions.



Wal-Mart “learning to love” Chinese trade Unions

- The ACFTU finding a toehold in a capitalist stronghold
- A political showcase?: What do Chinese unions do?
- Ambitious goals: rate of unionization at FIEs reaching 60% by the end of 2006, 80% by the end of 2007
- Why Wal-Mart’s turn in attitude? – from antipathy to support

CSR comes to China

- 2004: first comprehensive media coverage on CSR and government awareness - Shenzhen, Guangdong
- But, CSR inspections by foreign buyers starting a decade ago (Wal-Mart since 1992)
 - Region: Pearl-Harbor Delta – export oriented
 - Sectors: Textiles, apparel, toys, shoes, electronics – labor intensive
 - Standards: SA8000 most frequently used
 - Performance: 119 out of over 8,000 granted SA8000 certificates by the end of 2005

CSR comes to China

- May 2005: CSC9000T (China Social Compliance 9000 for the Textile and Apparel Industry), a Chinese home-grown alternative to SA8000
- November 2005: China Committee of Corporate Citizenship (企業公民委員會, <http://www.c-c-c-c.org.cn/>)
- February 2006: "Global CSR Forum: China"
 - 10 "most socially responsible enterprises" in 2005

What prompted China's fresh encounter with CSR?

- Economic globalization
 - Accession to WTO and trade expansion
 - Position in global supply chains
 - The “factory of the world” facing western consumers’ demand for compliance with CSR
- Adjustments to growth policy
 - People-based development approach (以人為本)
 - Emphasis on establishing a “harmonious society” (和諧社會)
 - Environment protection now taken into consideration: “Green GDP” measurement of local economic performance

Major Players



- Foreign buyers/brands in global supply chains
 - Motivation
 - Initiatives
 - Criticism
- Businesses
 - Not voluntary but “forced” embrace of CSR
 - PR motivated and rhetoric, rather than substantive and sustained compliance?
- Government: not a particularly active player until recently (central vs. local)
- NGOs: not a visible player yet (inadequate resource)
- Media: seems to be doing more on exposure

Implementation and Effect



- The overall picture: in general, CSR not widely practiced except in export-oriented local economies
 - Findings in 2005 NPC report on implementation of *Labor Law*
- Largely inspection-triggered compliance
 - Sustained results hard to achieve
 - Fraud and tolerance of fraud in compliance inspection
 - Cost addition and impact on profit: discrepancies among enterprises

Implementation and Effect



- Primary focus area of implementation
 - Labor: wages, safety, working conditions...
- Distortions in implementation
 - E.g., failing to comply with basic legal requirements (tax, labor safety and standards, etc), but active in social donations or philanthropic activities for PR purposes
- Enforcement deficiencies at government labor agencies

Controversies and Debates

- CSR for China: too much, too soon?
 - A developing economy in the lower end of global supply chains: disadvantage in competing in global market with imposition of CSR
 - Too expensive to practise: large vs. small firms
 - Benefiting third-party accreditation agencies, not necessarily stakeholders
 - Foreign buyers' hypocrisy: putting down prices while insisting on CSR
 - May work against workers' will?

Controversies and Debates

- CSR in guise of trade protectionism?
- China's own understanding of CSR?: three levels
 - Compliance with law (with even higher standards than under SA8000...)
 - Protection of environment
 - Social donations and philanthropy(note: CST9000T as China's first home-made guidelines on CSR standards)

Challenges and Prospects



- Inadequate government input
 - What can government do better to support?: your opinion
- Still limited awareness among firms
 - Considering various types of CG malfeasance at listed companies: even “shareholder value” not upheld
 - Private enterprises in appalling state of labor treatment: FIEs no exception
- Unfading problem in enforcement
- In the near future
 - need to adapt fast, while continuing and expanding the discourse: e.g., requesting for a “fair portion” of participation in cost-sharing by international brands