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Virginia Harper Ho
Email: vharperho@ku.edu

China's Soft Power in Africa or Real Corporate Accountability?

Summary

- Official policy support for corporate social responsibility (CSR) coincides with Chinese companies' global expansion under the Going Out and Belt and Road Initiatives, which now include green development goals.
- At home, China's state-led model of CSR emphasizes legal compliance and accountability for environmental and social impacts on local stakeholders. Central government policies for outbound Chinese investment follow this model and are driven by the state's interest in improving the reputation and competitiveness of its multinationals.
- CSR practices are still maturing among Chinese firms. Because they are also voluntary, Chinese government actors cannot control how Chinese firms implement CSR at home or abroad.
- International support through capacity-building and monitoring can help Chinese companies and banks strengthen CSR practices, improving their transparency and accountability to local and global stakeholders.
- More research into the CSR efforts of Chinese companies in Africa is needed, in particular on the impact they have on peacebuilding.

"An important but often overlooked aspect of Chinese investment in Africa is the emergence of Beijing's evolving corporate social responsibility policies and their application."

Introduction

China is one of the world's largest sources of outbound foreign direct investment (OFDI) and the fourth largest investor in Africa, according to the UN Conference on Trade and Development's 2017 World Investment Report, which cites China's total OFDI for 2016 at $1,281 billion and the US figure at $6,384 billion. More than three thousand Chinese-invested enterprises operate on the continent; about four thousand operate in North America. Although only about 3 percent of China's total OFDI is in Africa (versus just under 4 percent in the United States), Chinese investment in Africa continues to raise speculation about the long-term effects of China's growing presence in the region.[1] Chinese companies' willingness to invest in weak governance environments, combined with state development funding that comes with few strings attached, might undermine the labor and environmental standards advocated by Western governments and development banks.[2] Chinese-backed infrastructure and economic development projects, many undertaken in partnership with China's state-owned enterprises and financial institutions, are also seen as a form of soft power designed to win local support for China's economic policies, diplomatic positions, and global leadership.

An important but often overlooked aspect of Chinese investment in Africa is the emergence of China's evolving corporate social responsibility (CSR) policies and their application by Chinese companies investing on the continent.

China's Corporate Social Responsibility Policy Landscape

Since the mid-2000s, Chinese companies, civil society organizations, homegrown philanthropists, and entrepreneurs have begun to embrace CSR concepts. Many aspects of China's CSR movement rely on bottom-up efforts and voluntary corporate participation, but in the past decade, concepts of environmental and CSR disclosure, sustainability, and risk management concepts have become embedded in a range of government policies, guidelines, and mandates that are generally adapted from international models. Many Chinese state agencies now mandate stricter environmental and CSR reporting, and environmental and social risk management practices for the largest domestic firms—including listed companies, those in highly polluting sectors, state-owned enterprises, and financial institutions. Although Chinese environmental and labor laws generally do not apply abroad, the internal CSR policies these measures require can take effect across an entire firm, crossing national boundaries. At home, promoting CSR has helped Chinese government agencies deal with a mounting environmental crisis, showcase their innovation, outcompete other localities in attracting foreign investment, and raise the international reputation and global competitiveness of local firms.[3]

Now that most of these efforts have been under way for more than a decade, they are bearing fruit in the widespread adoption of CSR policies and practices in some form by many Chinese companies and trade associations. More than 75 percent of China's top firms, including its leading financial institutions, produce sustainability reports, most based on the leading international reporting framework, the Global Reporting Initiative's standards.[4] As of this year, more than 280 Chinese companies (along with 480 US firms), including Sinopec and other major investors in Africa, are members of the UN Global Compact, a voluntary commitment to uphold ten principles of responsibility for human rights, labor, and environmental impacts and ethical business practice.

CSR and Foreign Direct Investment

In 1999, the Chinese government adopted its Going Out policy specifically to encourage Chinese firms to invest overseas. Since 2013, it has pushed leading companies and financial institutions to invest abroad under its Belt and Road Initiative, a development plan to promote trade and investment ties across Asia, Europe, and North Africa. As a result, state-backed CSR policies have emerged in China at the same time that Chinese companies are expanding their global reach.

In the past few years, the Chinese government has begun to directly link CSR and environmental protection to development finance and Chinese companies' global expansion. In January 2017, China's bank regulator directed Chinese financial institutions to strengthen their risk management practices for firms that "go out," including environmental and social risk management.[5] In April, the Ministry of Foreign Affairs and several agencies that have shaped both CSR policies and China's OFDI strategy—the Ministry of Commerce, the National Development & Reform Commission, and the Ministry of Environmental Protection—issued guidance on "establishing a green Belt and Road," policies Chinese President Xi Jinping stressed at the Belt and Road Forum for International Cooperation in Beijing in May 2017. Like China's CSR policies at home, these most recent guidelines emphasize in general terms compliance with host country legal requirements, voluntary CSR, environmental disclosure, and the adoption of environmental management systems.

Corporate Accountability and Risk Management in Africa: The Limits and Power of CSR

The pervasiveness of state control over nearly every aspect of China's internal business environment and over the state-owned enterprises that dominate its infrastructure and extractive sector projects in Africa has raised concerns that sustainable development and CSR are largely policy tools to solidify China's influence in the region. The reality is more complex.

The current extension of CSR policies abroad is indeed driven by the state's interest in improving the reputation of Chinese companies, and Chinese companies in Africa have long engaged in philanthropic activities in the areas where they invest, with projects ranging from health care to education to pollution remediation. CSR may also deflect concerns of governments and business partners in Africa and along the Belt and Road (without them, worries about exploitation and Chinese imperialism would inevitably rise). But beyond bolstering Chinese companies' reputation abroad, CSR makes economic sense—poor environmental or labor practices create political and economic risks for companies and their funders. CSR may also reduce the social and environmental costs of rapid development and build stable economies where conflict is less likely to erupt.

Theories of CSR as state soft power also overstate the central government's ability to control Chinese companies abroad and the power of CSR as a tool of top-down control. Most CSR practices are voluntary and broadly defined, so the state cannot control how Chinese firms implement these policies at home or abroad. One study based on fieldwork in Mozambique, Kenya, and Uganda in 2015 found that both Chinese legal requirements and CSR-related agency guidance have only a limited effect on local corporate practice and that many firms believed them to be irrelevant locally.[6]

Chinese investment in Africa is also increasingly diverse. The number of private Chinese firms operating in Africa, especially in manufacturing and services operations, is rising. However, because most private firms do not receive direct support from the Chinese government and have weak channels of communication with Chinese government entities, official government CSR policies may not matter much.[7] On balance, state-sector firms and larger firms are more likely to have established internal CSR policies and governance structures, and these corporate policies are typically informed by international best practices and voluntary frameworks.[8] For example, the China National Offshore Oil Corporation announced in its 2016 CSR report that it has implemented company-wide frameworks for international risk management, water conservation monitoring, and environmental, health, and safety management, as well as oversight of contractors' environmental and social performance in its Uganda operations.

Despite these advances, recent research across countries shows that CSR practices are still maturing among Chinese firms operating in Africa and that many continue to think of CSR only in terms of charitable contributions or job creation.[9] Another challenge that Chinese and Western multinationals share is putting CSR and compliance policies into practice across far-flung business networks. Compliance is nearly always better at home than abroad; indeed, one study of thirty-three companies conducted in six countries in 2012 found that half of the surveyed investors rated their local CSR practices as weaker than those in China.[10]

Despite these limits, China's policy support for stronger CSR commitments by its multinationals should be welcomed. Recent studies on Chinese-invested companies in Africa show that CSR commitments can have a positive effect beyond job creation and have the potential to weaken sources of social tension in the region and thus contribute to peacebuilding efforts.[11] Even if China's policymakers are just "talking the talk" of environmental and social standards for OFDI, promoting CSR could encourage more Chinese companies and financiers to adopt higher standards for their African operations, which would benefit not only Chinese investors but also the communities they affect.

Recommendations

Western investors and governments have long criticized China's no-strings-attached approach to development finance and foreign investment, worrying that it might come at a high cost to the environment and local communities in the Global South. Now that sustainability and CSR are officially part of China's development policies in Africa and beyond, international support for CSR implementation—through private sector or NGO partnerships to build Chinese firms' CSR capacity, holding China's banks accountable for their green finance commitments, and urging Western multinationals to model best practices—could help Chinese firms "walk the walk," strengthening their transparency and accountability to local and global stakeholders. As CSR efforts by Chinese firms in Africa continue to evolve, more research is needed to understand their impact on peacemaking and peacebuilding.

Notes

1. Ministry of Foreign Affairs, "Chinese firms in Africa can practice CSR," May 24, 2016; Ministry of Commerce, "2015 Statistical Bulletin of China's Outward Foreign Direct Investment," 2016, 103.
2. Chinese investment is distributed equally among countries with good and poor governance environments, but because Western investment is concentrated more heavily among countries with better governance, Chinese investment makes up a greater share of OFDI in poor governance environments. Wenjie Chen, David Dollar, and Heiwai Tang, "Why Is China Investing in Africa? Evidence from the Firm Level," Brookings Institution, 2015, 7–8, 9.
3. Virginia Harper Ho, "Beyond Regulation," *Vanderbilt Journal of Transnational Law* 46, no. 2 (2013): 396–427; "Corporate Governance as Risk Regulation in China," *European Journal of Risk Regulation* 3, no. 4 (2012): 463.
4. KPMG, "Currents of Change: The KPMG Survey of Corporate Responsibility Reporting 2015," Publication no. 132962 (Amstelveen, Netherlands: KPMG International, November 2015), 33.
5. China Bank Regulatory Commission, "Guiding Opinion on Standardizing Banking Sector Services for Companies 'Going Out,' Strengthening Risk Prevention and Control," January 9, 2017.
6. Xiaoxue Weng and Lila Buckley, eds., "Chinese Businesses in Africa" (London: International Institute for Environment and Development, February 2016).
7. Ibid., 6, 19; David Dollar, *China's Engagement with Africa: From Natural Resources to Human Resource*s, (Washington, DC: Brookings Institution, 2016), xi–xii.
8. Weng and Buckley, "Chinese Businesses in Africa," 6, 8, 11, 18, 23–24.
9. Qinghai Liu, "Chinese firms in Africa implement CSR," working paper, Zheijian Normal University, April 2016; Weng and Buckley, "Chinese Businesses in Africa."
10. Liu, "Chinese firms."
11. Weng and Buckley, "Chinese Businesses."

About This Brief

This Peace Brief explores the emergence of China's corporate social responsibility policies and their application by Chinese companies investing on the African continent. Drawing on documentary sources on the CSR practices of a wide range of Chinese investors and on fieldwork conducted in China from 2008 through July 2017, the Brief is supported by the Asia Center at the United States Institute of Peace (USIP). Virginia Harper Ho is a professor of law at the University of Kansas School of Law and a fellow of the National Committee on US China Relations' Public Intellectuals Program.

United States Institute of Peace
2301 Constitution Ave., NW
Washington, D.C. 20037
www.usip.org

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