

# Impact of China and Prospects for Sustainability

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*The Potential Role of International Corporations*

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# The Real Deal on Sustainable Development

- Sustainable Development is often talked about in rather academic terms, like a scientific process or a historical journey.
- There is also a tendency to approach it either as a problem that can be solved or in rather apocalyptic terms,
- In reality it might be seen as simply making the best of a bad job. As John Elkington said about the corporate ‘dog-eat-dog’ world, the challenge is to teach cannibals to use forks.
- The same can be said of society as a whole.
- Paul Kennedy (Rise and Fall of the Great Powers), paraphrasing Bismark:
  - *“... all of these powers are travelling on the ‘stream of time’, which they can ‘neither create nor direct’, but upon which they can ‘steer with more or less skill and experience’.*
  - *How they emerge from that voyage depends, to a large degree, upon the wisdom of governments.....”*
- *.... and, we might add, the decisions taken by business managers.*



# What Matters are the Decisions People Take

- So, after all the big picture scenarios and complexities are analysed....
- **It all comes down to decisions that people take.**
- Which decisions, by whom?
- What are the drivers and constraints to decision making?
- For business managers what are the opportunities, risks, hurdles and enablers?
- What characterises Sustainable Development decision-making?
- How does this fit with CSR?

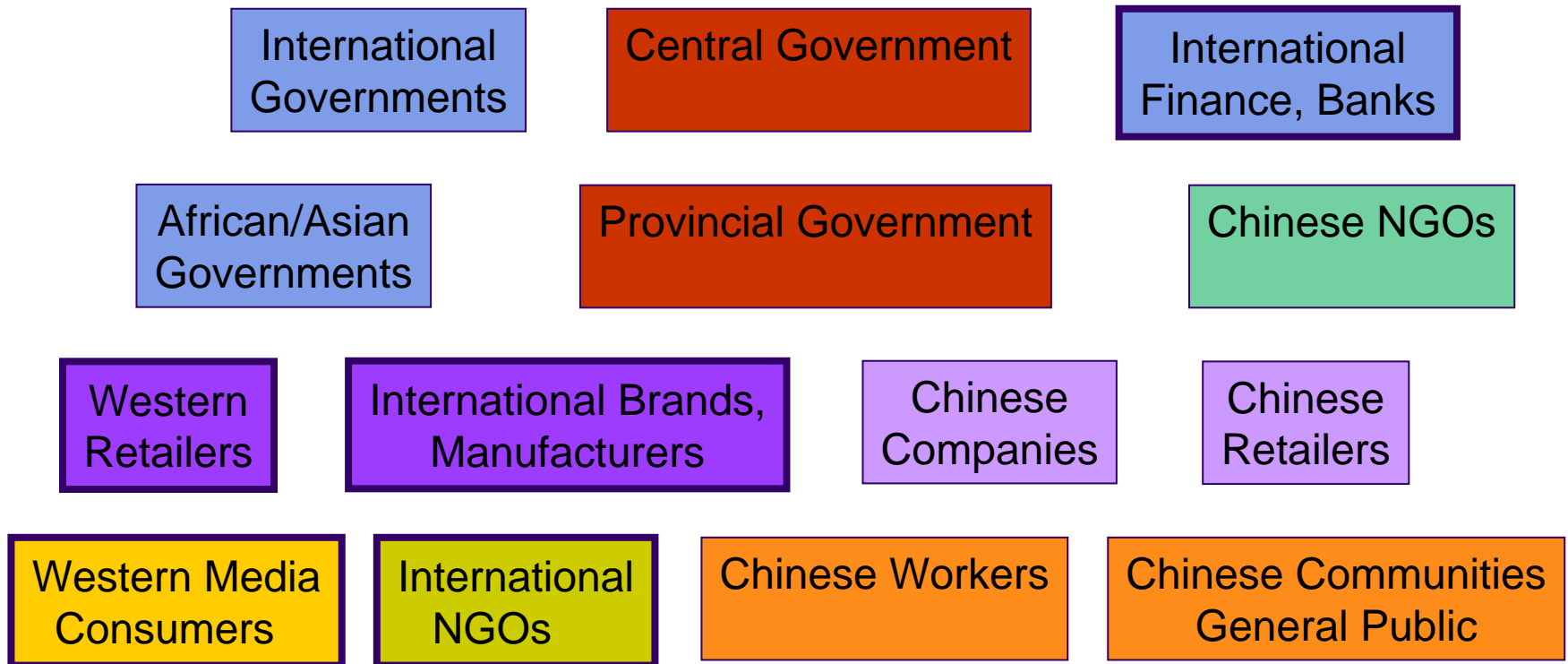
# Criteria for Sustainable Development Decisions



|   |  |   |
|---|--|---|
| Range of SD issues considered and overall balance over time | Ambitious in scope<br>Likely longer-term<br>Holistic, systematic<br>Not inclusive, possibly unpopular<br>Stakeholder benefits need selling | Ambitious in scope<br>Likely longer-term<br>Holistic, systematic<br>People-oriented<br>Well supported     |
|   | Reactionary<br>Quick fix<br>Single issue<br>Inward looking<br>Short-term<br>Business need driven   | People-oriented<br>Well supported<br>Maybe narrow focus<br>Possibly shorter-term<br>Issue-solution driven |
|   | Stakeholder involvement in the decision process<br>Stakeholders likely to benefit  |   |



# The Chinese Stakeholder Puzzle





# Keys to Sustainable Development in China

- **Investment**
  - requires protection of capital, control of corruption, WTO implementation
- **Resource efficiency**
  - requires market economy and business productivity
- **Legal enforcement**
  - requires central-local government accountability and ethics
- **Transparency**
  - requires government and corporate disclosure, NGO independence
- **Awareness and management skills**
  - requires education and training
- **Social equity**
  - requires human rights
- **Stakeholder choice**
  - requires public consultation, worker freedoms, consumer awareness

# Corporate Opportunities to Support Sustainable Development in China



- Investment – clean technology
- Long-term commitment and involvement
- Business partner due diligence (corruption, financial interests, CSR practices)
- Standards (EHS, social responsibility, business ethics)
- Disclosure of policies and performance (leadership)
- Education (schools, universities, communities)
- Auditing, open reporting and improvement
- Responsible sourcing (supplier support as well as compliance)
- Lean management and productivity systems
- Training (employee investment, labour productivity)
- Sharing of 'smart practice' across sectors
- Workforce engagement and consultation (freedom of association)
- NGO engagement and constructive support
- Lobby government through trade associations
- Integrated product and waste planning (close the east-west lifecycle loop)



## Some Case Studies

The following cases provide examples of:

- **Multinational corporate activity**
- **Sustainable Development performance snapshots in China**
- **Policy developments and market trends in China**

In each case there are:

- positive or negative indicators of sustainable development decisions
- insights into key stakeholder relationships
- insights into the wider Chinese sustainable development context



## Headline News

**McDonald's China To Set Up 40 Trade Unions In East China**

**Job-related illnesses a threat to social harmony and stability**

**China to automate monitoring of big polluters**

**Chemical Companies Jointly Promote CSR**

**Polluting Company Closure Figures Released**

**China and India will be most attractive countries for renewable energy investment by 2012**

**Wal-Mart Unveils Plans To Score Electronics On Environmental Sustainability**

**Setback for water safety campaign**

**China to tighten electronic pollution control in response to EU's green directive**

**IBM Initiates Green Innovation Program In China**

**More than 3000 Zhejiang Enterprisers advocate social responsibility**

**Chinese vice premier stresses pollution control**

**World's Largest Retailers Promote Acceptable Working Conditions for Global Supply Base**

**Text Messages Stop Chinese Plant Construction**

**Energy Conservation: China Means Business**

# McDonald's China To Set Up 40 Trade Unions In East China



McDonald's China has promised to establish trade union branches in its 40 restaurants in Zhejiang province this year. Zong Hao, central region human resources director with McDonald's China, made the remarks when visiting the Zhejiang Federation of Trade Unions.

The move would **boost the development of labor relations**, upgrade the fast food giant's **social image** in China and help it **fulfil its social responsibilities**, said Chen Dingxin, ZFTU vice chairman. Chen said he hoped McDonald's China would lose no time in fulfilling its promise in accordance with China's regulations on trade unions.

McDonald's, KFC and Pizza Hut have been **criticized for paying their part-time employees** in Guangzhou just RMB4 per hour, **up to 40% less than the city's statutory minimum wage** of RMB7.5. However subsequent government inspections found no problems with the foreign fast food operations.

## Job-related illnesses a threat to social harmony and stability



Some 670,000 cases of diseases attributable to workplace hazards have been reported. "More than a public health hazard, **the situation of occupational diseases poses a threat to China's overall development and social harmony,**" said the Vice-Minister of Health.

200 million Chinese, particularly migrant workers, are at risk of contracting occupational diseases. Most work for medium and small-sized industrial enterprises. Economic losses caused by occupational diseases and workplace injuries amount to \$39 billion every year, about 1/60 of GDP. Such illnesses also make the country less competitive, said Su Zhi, deputy director of the bureau of health supervision, adding that there were **concerns of a potential labor shortage by 2015.**

The country's ability to control and prevent occupational diseases lags **far behind that of many other countries,** said Li Tao, director of the national institute of occupational health and poison control. "In the uphill battle against work-related diseases, the **government should pay more attention to prevention based on international experiences** that have proved effective,".

"At present, **labor insurance or employers cover the fees, but only if a contract is in place.** Migrant laborers without contracts, who toil hard for meagre payment, are left hanging by cash-thirsty bosses. Nobody is willing to pay their medical bills, leaving them in poverty, "



## China to automate monitoring of big polluters

China plans to set up an automated system to monitor big polluters by 2008.

The country also plans to introduce **incentives for local officials to enforce pollution controls**, as part of an effort to meet the national goal of cutting emissions of major pollutants by 10% by the end of the decade.

A new government assessment system would ensure that **organisations or local officials that ignore pollution controls would face punishment**, Zhou Shengxian, director of the State Environmental Protection Administration (SEPA).



## Chemical Companies Jointly Promote CSR

Trying to offset the environmental and health problems their manufacturing often causes, a handful of **foreign-funded chemical giants have committed to join with their Chinese partners to promote corporate social responsibility.**

Under the 1+3 project model initiated by the China Business Council for Sustainable Development, a **CBCSD member company is expected to train three of their business partners by sharing experience in CSR**, which mainly includes environmental protection, labor issues and human rights protection.

Enterprises trained in the first phase are also **expected to train their own business partners and continue to train others.** By building this training network, **knowledge will hopefully be disseminated throughout the industry, leading to better operational efficiencies.** A total of 36 have companies promised to join the initial phase under the guidance of eleven overseas enterprises and three domestic chemical giants such as Sinopec.



## Polluting Company Closure Figures Released

According to the State Environmental Protection Administration, **China closed down a total of 3,176 polluting enterprises** amid a campaign in which **720,000 companies had been checked for their pollution discharges last year.**

In the campaign, SEPA and other departments **investigated 28,000 cases violating related environmental laws and regulations and settled 13,000.** Threats to the **sources of drinking water**, industrial parks densely distributed with polluting enterprises and construction projects likely to damage the environment **were the major targets in the campaign.**

A total of 1,981 industrial parks across the country, involving 29,890 enterprises, were subject to investigation, and **4,162 polluting companies received severe punishment.** China reported 161 pollution accidents last year and the administration suspended 163 projects that would damage the environment with a total investment of RMB770 billion.

## China and India most attractive countries for renewable energy investment by 2012



China and India will become the most attractive countries in the world for **renewable energy investment** and projects by 2012, according to the latest Ernst & Young Renewable Energy Country Attractiveness Index. The quarterly index shows that China has climbed three places up the wind index to fifth position in the world for investment in wind energy.

Corporate and institutional investors have started to show a greater interest in China and India, **as their economies accelerate and legislative changes are introduced that help to foster renewable energy generation. The Chinese government is showing a commitment to renewable energy sources.**

Its investment in renewable energy is increasing at an impressive rate, with the annual installation of wind turbines more than doubling in the last 18 months. Activity in China has been driven by large projects and site availability and it is expected that the country's target to install 5GW of wind capacity by 2010 could be achieved within the next two years.

# Wal-Mart Unveils Plans To Score Electronics On Environmental Sustainability



Wal-Mart has released criteria that will be part of a **scorecard used to evaluate consumer electronics suppliers on the environmental sustainability of their products**. Starting in 2008, Wal-Mart will ask suppliers around the world to fill out the scorecard to will assess the sustainability of their product and **buyers will have the option to use the scorecard results to influence purchasing decisions**.

The scorecard will evaluate electronics on **energy efficiency, durability, upgradability, end-of-life solutions, and the size of the package** containing the product. Products will also be evaluated on their ability to use innovative materials that **reduce the amount of hazardous substances**, such as lead and cadmium, contained in the product. The end result is a score that shows suppliers where improvements can be made and allows Wal-Mart to evaluate the environmental sustainability of the product.

The announcement reflects the larger **company strategy to sell products that sustain natural resources and minimize impact on the environment**. Wal-Mart believes the scorecard encourages improvements that are good for business as well as the environment, **reflecting Wal-Mart's view that being a profitable and efficient business goes hand-in-hand with being a good steward to the environment**.



## Setback for water safety campaign

A campaign jointly launched by seven government departments to guarantee the safety of source water has encountered obstacles. The campaign launched last July, sought to ban sewage outlets at all source water protection areas by the end of 2006. **Seven government departments, including the State Environmental Protection Administration (SEPA), the Ministry of Supervision and the National Development and Reform Commission, joined forces in the campaign,** determined to crack down on illegal enterprises that pollute source water.

However, Sichuan Province in Southwest China postponed the deadline to the end of this year and some provinces have not even completed the first-phase of defining source water protection areas. Leshan and Neijiang, two cities in Sichuan, said the work of defining source water protection areas was only completed at the end of last year. "How were we supposed to move all sewage outlets in 2006 when the task of defining protection areas was only completed at the end of the year?" Tang Yifan, deputy director of Leshan environmental protection bureau, was quoted as saying.

Tang said even though Sichuan is a year behind schedule, it was still ahead of other provinces in the country. Xiong Yuehui, deputy director of SEPA's environment supervision department, said some provinces were still in the middle of defining protection areas, while others, like Gansu and Ningxia, have not even started. He said the situation is "complicated", as **there is no State standard for defining source water protection areas.** However, it showed **local environmental protection departments had failed, to some extent, to fulfil their duties,** he said. **"It shows that an embarrassing situation does exist where government orders on environmental protection are difficult to be implemented at local levels,"** Xiong said.

## China to tighten electronic pollution control in response to EU's green directive



China is expected to issue **six more regulations in the second half of 2007 to tighten pollution controls on electronic products**, according to the Ministry of Information Industry (MII). The regulations will be issued **in response to the European Union's Energy Using Products (EUP) Directive** that will officially take effect in August.

The EUP Directive includes eco-friendly standards on the design, production, transportation, application, and recycling of electronic products. Without consideration of the new foreign standards, China's exports of electronics could be adversely affected, said Huang Jianzhong, an MII official. The production of electronic devices has caused pollution from toxic substances including lead, mercury, and chromium, Huang said.

The country has issued three regulations governing the maximum allowable level of the hazardous substances in electronic products. Huang noted China will issue a new regulation in August requiring firms to guarantee toxic substances will not leak from the devices. The nation will introduce another five standards on non-lead soldering by the end of the year. The official also said **the regulations will help upgrade facilities in the electronic industry.**

# IBM Initiates Green Innovation Program In China



IBM has announced plans to initiate a "Green Innovation Project" for the **purpose of helping Chinese enterprises increase their efficiency in utilizing energy in their data centres.**

IBM plans to spend **US\$1 billion each year** on the project, which will **assist Chinese enterprises to transform their infrastructure through technology and service innovation and reduce energy consumption while reinforcing computer capacities.**

**IBM will provide five kinds of services to Chinese firms**, including evaluating energy consumption at their data centre, modularizing data centers, storage and refrigeration solutions, airflow analysis and wiring optimization, and environmentally-friendly smart building services.

## More than 3000 Zhejiang Enterprisers advocate social responsibility



More than 3000 Zhejiang enterprisers signed the Social Responsibility Advocacy to Zhejiang Enterprisers on the annual Zhejiang enterpriser conference themed in Scientific Development and Zhejiang Enterprisers' Responsibility. They **committed on several key social responsibility aspects, including caring employees, environmental-friendly production, raising resource efficiency, more devotion on charity and poverty reduction.**

**10 enterprises won special awards on social responsibility.** It is said that the donation of those ten enterprises amounted to about 1.344 Billion RMB, providing working position to more than 180 thousand people.

**Their new attention and performance is part of result of their excellent performance on economic revenue, but also part of reason for profits of enterprises.** Their commitment in the corporation responsibility **will definitely promote and incite the attention and efforts by enterprisers in this field in other areas and industries.**

# Chinese vice premier stresses pollution control



Chinese Vice Premier Zeng Peiyan has **urged local governments to push forward industrial restructuring and take effective measures to curb pollution.** China's commitment in reducing energy consumption and cutting pollution is "unalterable", said Zeng. Local governments must carry out the policy and fulfil the goal with full efforts, Zeng said.

Dongting Lake, the country's second largest freshwater lake, has suffered serious pollution in recent years. Earlier this month, more than 100 paper mills that discharge chemical waste into the lake were ordered by Hunan authorities to be closed after they failed to live up to promises to reduce pollution.

Zeng **urged local governments to continue such efforts and take more measures to promote the environmental-friendly industry and technology.** China has set a goal to slash its energy consumption per unit of domestic gross product by 20 percent and the discharges of sulfur dioxide (SO<sub>2</sub>) and chemical oxygen demand (COD) by 10 percent between 2006 and 2010.

During his four-day tour in Hunan, Zeng also visited factories, residential communities and farmers. He **urged local authorities to be more attentive to the concerns of the public and help solve their difficulties, especially in housing.**

# World's Largest Retailers Promote Acceptable Working Conditions for Global Supply Base



Tesco is now joining US-based Wal-Mart, France' Carrefour, and Germany's Metro Stores to promote uniform and acceptable working conditions for their offshore supply base. This comes three months after Tesco received negative publicity after a U.K news report showed footage of underage workers in supplier factories in Bangladesh.

This is the **first time that large general retailers**, rather than manufacturers/brands such as Nike and Mattel, **have created a common set of supplier standards**. The new Global Social Compliance Program code **will cover both food and non-food production for retailers and brands** – making it potentially the most sweeping initiative since the emergence of the supply-chain monitoring movement a decade ago.

Critics of these programs argue that they fail to fully consider market conditions in developing countries, the net result being a loss of jobs and national income in those countries. **Will these standards lead to higher offshore costs, and even in some cases make the move to off-shoring less attractive?** Probably not materially in the short term, but **over time such moves will impact the marginal benefits of off-shoring**.

# Text Messages Stop Chinese Plant Construction



A Chinese city has halted construction of a chemical plant after **residents sent more than 1 million mobile phone text messages protesting possible pollution dangers**. The \$1.4 billion paraxylene facility was planned for the booming port of Xiamen. Deputy mayor, Ding Guoyan, said **"The city government has listened to the opinions expressed and has decided, after careful deliberation, that the project must be re-evaluated."**

Paraxylene is used in production of plastics, polyester and film. Short-term exposure can cause eye, nose or throat irritation. Chronic exposure can affect the central nervous system. The plant was due to be located 10 miles from the center of Xiamen, a center for Taiwanese and Hong Kong investment. The nearest homes were one mile away.

**Demand for chemicals such as paraxylene is soaring** as China's export-driven manufacturing industries expand. **The government, long indifferent to the environmental cost of China's economic boom, has become more sensitive to pollution complaints** after accidents that polluted rivers, disrupting water supplies to major cities. **Farmers in areas throughout the country have protested over pollution** that has tainted water supplies and ruined farmland.

**The suspension of the Xiamen project coincides with government efforts to slow an investment boom in industries where supplies of factories and other assets exceed demand.** Last week, a state news agency quoted officials who cited public concerns about radiation exposure in announcing the suspension of work on a futuristic magnetic-levitation train line in Shanghai that critics said was too expensive and impractical.



## Energy Conservation: China Means Business

China uses more than triple (3.4 times) the world average of energy to produce one widget. This is grotesquely **inefficient, expensive and environmentally disastrous**. It's also a **potential national security threat** to an energy importer, as China is. Its government has set ambitious national goals for energy efficiency improvements (20 percent by 2010) and **assigned each province and provincial-level city an energy-reduction target** (ranging from 30 percent to 12 percent).

The results for 2006 are not encouraging. Through the first half of last year, energy use per production unit rose by 0.8 percent, and the year-end figure reportedly missed a 4-percent reduction target by a significant margin. More stringent measures are being implemented to get the numbers moving in the right direction.

One measure, the Energy Conservation Notice, requires that after January 1, 2007 **all project-feasibility and project-application reports submitted for approval must contain a chapter called "Energy Conservation Analysis."** If an application does not include this chapter, it will be **rejected**.

The **national government has informed the local governments that it will be watching closely**. It **has made it clear that energy conservation goals are a key national government priority**, it accurately reported and publicly critiqued poor performance in 2006 and has **assigned each province and provincial-level city a specific reduction target**. **Most local governments will therefore likely aim for compliance with the national standard**. In 2007 we can expect increased project-construction inspections to confirm compliance with energy conserving codes and requirements