



# 2015

## Report on the Sustainable Development of Chinese Enterprises Overseas





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## **Report on the Sustainable Development of Chinese Enterprises Overseas**

**Chinese Academy of International Trade  
and Economic Cooperation  
Ministry of Commerce**

**Research Center of the State-owned Assets Supervision  
and Administration Commission  
of the State Council**

**United Nations Development Programme China**



## Preface

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The Chinese government's pronouncement of its "going global" national strategic policy in 2000 sparked rapid growth in outward foreign direct investment (ODI) and international cooperation by Chinese companies. Chinese ODI ranks the third in the world for three consecutive years. As a result of their internationalization efforts, Chinese companies have strengthened their corporate governance strategies and now practice ever greater care toward balancing the economic, social and environmental interests of their host countries. This has enabled them to achieve some notable successes in their sustainable development activities overseas. In particular, Chinese companies' contribution to improving host countries' infrastructure, stimulating local economies, promoting employment levels, and facilitating mutual benefits and joint development has been widely acknowledged both locally and internationally.

China is beginning a new chapter in its economic and social development and in further opening up to the international community. At the same time, Chinese companies are attempting to seize this strategic moment to achieve accelerated growth in overseas markets. On March 28<sup>th</sup>, 2015, Chinese government issued *Vision and Actions on Jointly Building the Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road*, thereby opening up new prospects for economic cooperation between China and countries along the "Belt and Road", and creating new opportunities for Chinese companies to "go global". Concurrently, the 13<sup>th</sup> Five-Year Plan period, which emphasizes mutual benefits and joint development strategies, poses new and higher requirements for such globalization efforts. Meanwhile, the international community has shown a growing interest in the sustainable overseas development of Chinese companies, accompanied by ever-higher standards and requirements. Therefore, Chinese companies are facing steep challenges in trying to improve their management systems for sustainable overseas development, establishing more harmonious labor relations, and enhancing their environmental and social impact assessments. At present, the most pressing issue is exploring common grounds and common goals with various stakeholders, and attempting to broaden their shared interests in line with international standards and perspectives.

*2015 Report on the Sustainable Development of Chinese Enterprises Overseas* has been jointly released by the UNDP in China, the Chinese Academy of International Trade and Economic Cooperation of the Ministry of Commerce, and the Research Center of the State-owned Assets Supervision and Administration Commission of the State Council of China. This Report represents the first systematic

attempt at clarifying the relevant policies and measures taken by the Chinese government, illustrating the current progress of Chinese companies in sustainable overseas development through the four internationally recognized lenses of corporate governance and economic, environmental and social performance. The goal is to help the international community gain a clearer picture of the sustainability of the overseas development of Chinese companies, to help Chinese companies understand and institutionalize sustainable overseas development and to equip them with the proper tools to truly achieve it.

Report Writing Team

September 2015

# Acknowledgement

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In the context of economic globalization, sustainable development of Chinese enterprises overseas has stood out as an imperative and challenging issue. In September 2013, UNDP China, the Chinese Academy of International Trade and Economic Cooperation (CAITEC) under the Ministry of Commerce (MOFCOM) and the Research Center of the State-owned Assets Supervision and Administration Commission (SASAC) launched the ‘Project of Overseas Sustainable Development of Chinese Companies’. By borrowing strength from an international perspective and pooling wisdom, the project aims to study issues regarding overseas sustainability of enterprises and develop forward-looking, innovative and practical solutions. The *2015 Report on Sustainable Development of Chinese Enterprises Overseas* represents an important periodic outcome.

The Report has received kind attention and support from the United Nations Development Programme, the Ministry of Commerce and the State-owned Assets Supervision and Administration Commission.

In developing the Report, well-balanced collaboration and honest communication have enabled deeper understanding of Chinese enterprises’ overseas sustainable development. The joint work has exemplified the “open and pragmatic” vision for effective international cooperation. In addition to enormous desk research, the Report Writing Team was also dedicated to field study by visiting locations of major concerns. More than 20 staff members travelled to Angola, Kenya, Laos, Myanmar, Russia, the United States and other places for investigation and case study. Besides, the team also interviewed employees from various levels in nearly 50 Chinese multinational enterprises. To give full consideration to concerns of all stakeholders, the team has held about 20 consultation sessions with enterprises and experts from home and overseas to pool insights and suggestions.

Among all contributors, scholars from the Party School of the Central Committee of C.P.C, the Development Research Center of the State Council, the Chinese Academy of Social Sciences, Tsinghua University, Peking University, University of International Business and Economics, Capital University of Economics and Business, China Agricultural University, etc. have provided expert advice.

Relevant domestic and international institutions and embassies in China have also contributed to the preparation of the Report from their varied perspectives. We are grateful for the support from staff in the Embassies of Sweden, Norway, Switzerland, Netherlands, Japan, Turkey, Kenya and Ethiopia, and for the guidance from experts of the Global Reporting Initiative (GRI) and other institutions.

In addition, we would like to express our special thanks to staff members in the surveyed enterprises who have been kind enough to share valuable first-hand information. The Report would not have been possible if it were not for you.



The preparation of the Report has also relied on direct and indirect support from institutions and individuals who are too numerous to enumerate here. We would like to extend our most sincere gratitude to all of our valued advisors and contributors. Special thanks would be sent to China Minmetals Corporation, China Machinery Engineering Corporation, ICBC Financial Leasing Co., Ltd, the Export-Import Bank of China, State Power Investment Corporation, Chinese Enterprise Overseas Investment Institute, etc. for your generous help.

The development of the *2015 Report on Sustainable Development of Chinese Enterprises Overseas* has been an inspiring and productive attempt. With no precedent to draw on, members of the team assumed unparalleled sense of mission and made unsparing efforts. However, due to restrictions of time and expertise, there might be flaws and deficiencies in the Report. Therefore, we welcome comments from all readers.

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Report Writing Team  
October 2015

**Statement:**

This report is published in both Chinese and English, and the Report Writing Team has strived to ensure the consistency between two versions of the Report. The Chinese version should prevail in case of any ambiguity or conflict in terms of the two versions.



# List of Acronyms

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ACFIC	All-China Federation of Industry and Commerce
ASEAN	Association of Southeast Asian Nations
BOT	Build-Operate-Transfer
BSR	Business for Social Responsibility
CAITEC	Chinese Academy of International Trade and Economic Cooperation
CBRC	China Banking Regulatory Commission
CCCC	China Communications Construction Company
CITCC	China International Telecommunication Construction Corporation
CMEC	China Machinery Engineering Corporation
CNMC	China Nonferrous Metal Mining (Group) Co., Ltd.
CNPC	China National Petroleum Corporation
CRBC	China Road and Bridge Corporation
CRCC	China Railway Construction Corporation Ltd.
CSD	Corporate Sustainable Development
CSR	Corporate Social Responsibility
EHS	Environment, Health and Safety
EPC	Energy Performance Contracting/ Engineering Procurement Construction
EIA	Environmental Impact Assessment
GeSI	Global e-Sustainability Initiative
GIS	Geographic Information System
GRI	Global Reporting Initiative
ICBC	Industrial and Commercial Bank of China
ICT	Information Communication and Technology
ISO	International Standard Organization
MDGs	Millennium Development Goals
MFA	Ministry of Foreign Affairs
MFTEC	Ministry of Foreign Trade and Economic Cooperation
MMG	Minerals and Metals Group

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MNCs	Multinational Corporations
MOFCOM	Ministry of Commerce
MOHURD	Ministry of Housing and Urban-Rural Development
MPS	Ministry of Public Security
NDRC	National Development and Reform Commission
NGOs	Non-Governmental Organizations
ODI	Outward (Foreign) Direct Investment
OECD	Organization for Economic Co-Operation and Development
POEs	Private-owned Enterprises
R&D	Research and Development
SAFE	State Administration of Foreign Exchange
SASAC	State-owned Assets Supervision and Administration Commission
SAWS	State Administration of Work Safety
SDGs	Sustainable Development Goals
SFA	State Forestry Administration
SGR	Standard Gauge Railway
SINOPEC	China Petroleum and Chemical Corporation
SOEs	State-owned Enterprises
SPIC	State Power Investment Corporation
UNICEF	United Nations International Children's Emergency Fund



# Executive Summary

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Since the initiation of the “going global” strategy in 2000, Chinese enterprises have made vibrant progress in outward foreign direct investment and cooperation, featuring increasingly sensible structures and approaches and growing varieties of destinations and industries. In 2014, Chinese investors made direct investments overseas totaling US\$123.1 billion across all industries, up by 14.2% from the previous year, ranking the 3<sup>rd</sup> in the world for three consecutive years. The value of completed contracts for China’s overseas contract projects reached US\$142.4 billion, up 3.8% from 2013; the value of newly signed contracts reached US\$191.8 billion, up 11.7% from 2013. In 2014, China sent 562,000 workers from all trades overseas as part of labor cooperation programs, an increase of 35,000 (or 6.6%) on the previous year.

In general, “going global” Chinese enterprises have become, to some extent, a contributing part of the socio-economic development in host countries. Internationalization of enterprises by far represents China’s economic integration into the global economy. In this process, enterprises have come to understand international market rules and embrace diverse cultures and values. Their support for well-balanced development of economy, society and the environment in host countries has honored their commitment to sustainable development, while further efforts are still desirable.

In such context, the United Nations Development Programme, the Chinese Academy of International Trade and Economic Cooperation (CAITEC), Ministry of Commerce and the Research Center of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council have worked on the *2015 Report on the Sustainable Development of Chinese Enterprises Overseas*. The Report, as an outcome of collaboration between a UN entity and Chinese government think tanks, makes the first attempt to gain an insight into overseas sustainable development of Chinese enterprises in a systematic manner. It presents the Chinese government’s efforts to promote overseas sustainability of Chinese enterprises and the enterprises’ performance as corporate citizens. On such basis, it proposes suggestions on improving sustainability and pursuing mutually beneficial cooperation.

## Key Features

### 1. A research framework based on international standards

The Report has adopted international standards for sustainable development as the framework and tool. The Report has reviewed the “going global” process in four dimensions, i.e. economic, environmental, social dimensions and corporate governance, to find out good practices. The Report has reflected on the challenges during Chinese enterprises’ pursuit of sustainable development overseas. It has

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also discussed differences between domestic and international views, pinpointed major CSR issues and identified challenges and opportunities.

## **2. A systematic summary of policies, laws and regulations for overseas sustainable development of Chinese enterprises**

In recent years, the government has formulated a series of policies and guidelines to promote overseas sustainable development, among which 33 are still in effect and have had positive impact. In addition, some financial institutions have conducted voluntary and self-governing Environmental Impact Assessment (EIA) as part of their sustainability efforts. Industry associations have helped member enterprises by formulating codes of practice as a supplement to government policies.

## **3. Information disclosure based on first-hand data**

Obtaining and analyzing first-hand data constituted a major source of the content of the Report. The Report has tried to provide an objective presentation of overseas sustainable development of Chinese enterprises by means of questionnaire, interviews and consultation with stakeholders and experts. A preliminary database for overseas sustainable development and responsibility management of Chinese enterprises has been set-up.

In planning, designing and compiling the Report, three factors were considered: international standards, overseas operations of Chinese enterprises and major concerns of the international community. Included in the questionnaire were over 60 questions in 18 categories, divided into 5 parts, i.e. basic information, corporate governance, economic performance, environment impact and social impact.

More than 250 Chinese enterprises which have been operating overseas have responded to the questionnaire. Among these respondents, 36% were state-owned enterprises (SOEs) and 63% privately-owned enterprises (POEs); their overseas investments varied from less than USD 1 million to more than USD 100 million; they have been operating for varied numbers of years in different industries and destinations.

## **4. Priorities identified among responsibility issues**

Priorities among responsibility issues have been identified for Chinese enterprises to step up overseas sustainable development. Faced with latest developments in economic globalization and China's "Belt and Road" initiative, the Report has taken on its mission of "thinking global, acting local" to introduce new concepts such as "mechanisms for stakeholder communication and involvement", "social capital investment", "community risk management" and relevant international standards. To upgrade the "going global" performance, it has shared constructive suggestions on designing approaches and coordinating external support. By doing this, the Report hopes to trigger discussion with stakeholders to figure out an effective pathway to sustainability.

# **Major Findings**

The Report analyses the survey results in four dimensions, i.e. corporate governance, economics, the



environment and society. Case studies are presented to demonstrate Chinese enterprises' sustainability attempts at the micro level. In particular, the Report documents six major findings.

**1. Mutually beneficial cooperation has been largely achieved**

By supporting local economic, social, environmental, governance and cultural efforts, Chinese enterprises have largely achieved mutually beneficial cooperation with host countries. Both Chinese companies and their host country stakeholders have realized the significance of sustainable development to their cooperation. Overseas investment has not only enabled Chinese enterprises to acquire new technologies, brands and marketing channels and enhance capacity to tap external sources, but also driven host countries' economic growth by closing local financing gaps. Localization of commercial operations and integration into local communities have build up multinational business expertise for Chinese enterprises and talent pools for host countries, which have thus become better able to upgrade their industries and pursue independent development. Cooperation in energy and resources has added to the supply for China and raised added value of resources in host countries, turning resource endowments into engines for growth. Joint projects in infrastructure have expanded common interests between China and the host countries by enabling collaboration on transportation, telecommunications, urban water supply and drainage, hospitals and schools, which have enhanced local environment for investment and living.

**2. Challenges come with opportunities**

Despite progress, Chinese enterprises are troubled by insufficient knowledge, experience, human resources and capital. Thus, their capacity and level of overseas sustainable development remain to be raised. From a developmental perspective, Chinese enterprises need to step up efforts in cultural issues, environmental stewardship, community issues, labor relations, management mechanisms, standard setting, information disclosure, etc. For example, differences in culture and language have become a major obstacle. More work is required for protecting the environment, localizing procurement and employment and training local employees. Emphasis needs to be given to management and data collection of gaseous, liquid and solid wastes. Results of third-party EIA need to be translated into actions. Better communication with stakeholders and the international community remains to be achieved with improved mechanisms and skills. Enterprises need to raise their awareness of the significance of indirect stakeholders and carry out better interactions with all stakeholders.

**3. Governmental guidance has proven to be crucial**

The Chinese government has released a series of policies and guidelines to help "going global" enterprises integrate into local communities. As a result, most enterprises have increased awareness of sustainability; some have even incorporated the idea into their development strategies. Particularly, in industries with emphasis and detailed guidance from the government, better sustainability performance has been observed. For example, safety in production and operations and risk management are major concerns of China's policies on overseas investment. Laws and guidelines formulated by the Ministry of Commerce (MOFCOM) and other departments have clear-cut requirements, supervision measures and



penalties regarding establishing safe production systems, ensuring staff safety, developing emergency response mechanisms, etc. According to the Report, 86% of the surveyed enterprises have had management systems for safe production and had few accidents. This suggests that the government's emphasis, institutional constraints, ensured enforcement and penalties have been effective in regulating enterprises' practices.

**4. Size and overseas operating time have influenced sustainability performance**

The scale of an enterprise bears strong relevance to its sustainability performance overseas. Enterprises with overseas investment of over US\$100 million have better performance in developing mechanisms for risk management than otherwise. Compared with smaller enterprises, larger ones are more active in building local networks and localizing their procurement. Similarly, the longer an enterprise operates overseas, the better its sustainability performance. Enterprises operating for over 10 years are more localized in procurement and are doing better in developing systems for risk and social responsibility management. It has not been long since Chinese enterprises "gone global" on a large scale. We have every reason to believe that, with time going by and experience being accumulated, they will do better in the future.

**5. Challenges vary across regions and industries**

Chinese enterprises engaging in different regions or industries are faced with varied challenges. For example, enterprises in the extractive industry have outpaced those in other industries in environmental performance, especially in familiarity of local and international laws and regulations, and taking biodiversity actions. When deciding on destination of donations, enterprises in construction and the mining, new and renewable energy industry prefer to support local infrastructure, while those in other industries usually turn to cultural exchanges. Geographically, enterprises have identified different sources of risk in different regions. Those operating in Asia and Europe are concerned about fluctuation in price and potential inflation; in North America and Oceania, environmental risk; in Africa and South America, staff safety, after political climate and labor issues.

**6. The international community requires greater voice from China**

With respect to communication with stakeholders, some Chinese enterprises have failed to develop effective mechanisms, proper skills or sufficient capacity, sometimes resulting in community and environmental disputes. Moreover, the international community has misunderstanding of a few Chinese enterprises. To make matters worse, these enterprises have largely failed to respond to such misunderstanding. To address this problem, Chinese enterprises need to become better able to borrow strength from international standards and regulations and make fair response to doubts. In the coming years, they may join relevant international initiatives to connect corporate standards with international ones. Greater transparency of business data and increased interaction with local stakeholders (including non-governmental organizations) are also helpful.





## Suggestions

The Report presents overseas sustainable development of Chinese enterprises so far. While recognizing their responsible efforts, the Report also identifies challenges. Accordingly, it tries to propose relevant suggestions for the Chinese government, host countries, and Chinese enterprises, in the hope of building synergy to buttress overseas sustainable development of Chinese enterprises.

It could be helpful if the Chinese government could enhance guidance for “going global” enterprises by releasing policies and sharing information. Particularly, clarified penalty measures and supervision mechanisms are desirable. Considering differences among enterprises in different regions and industries, the government may provide more targeted guidance. Governmental support is also necessary to encourage domestic academic institutes, develop think tanks with international influence and enhance cooperation with the United Nations and other international organizations.

Chinese enterprises need to integrate sustainability into every aspect of production and operations. They need to understand that improving sustainability could safeguard their overseas operations. It is suggested that they develop mechanisms for communication with stakeholders and enhance transparency in corporate management. They are also expected to localize procurement, transfer technologies and support upstream and downstream industries in host countries. Regarding the environment, they need to understand and observe related local laws and regulations, and strengthen EIA in all projects. The measures taken should suit individual conditions of enterprises to allow practical contributions to local development.

Host countries are suggested to improve related laws and regulations, and ensure enforcement. Local government may encourage local stakeholders to take an active role in developing mechanisms for communication with Chinese enterprises. Embassies and consulates of host countries in China are expected to enhance communication and information sharing with the Chinese government and headquarters of enterprises.





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# I. Introduction

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## 1. Background

In recent years, since 2000 in particular, the Chinese government has clearly stated its plan to accelerate the globalization of Chinese companies by fostering a group of multinational corporations (MNCs) with enhanced competence in international operations and global competitiveness. Chinese companies are attempting to integrate into the global economy with greater confidence and ease; aiming to acquire a truly global perspective with the ability to operate internationally, and to become multinational corporations respected and trusted by host countries and the international community. The key to achieving these objectives lies in balancing profit-maxing with corporate governance, economic, environmental and social considerations.

Meanwhile, the international community has also recommended new expectations for inclusive, green, and sustainable business. The United Nations Sustainable Development Goals (SDGs), which were signed by Heads of State and Government in September 2015, not only set forth social, economic and environmental goals for the governments over the next 15 years, but also encourage companies and other stakeholders to take advantage of their financial, technological and network resources to support the global development agenda, thus contributing to the universal improvement in the global economic, environmental and social spheres.

Moreover, the G20 Inclusive Business Framework, which has been approved a month ago by the G20 Development Working Group and is part of the final Heads of Government communique this November in Turkey, calls for the launch of the Global Policy Platform on Inclusive Business. The Inclusive Business Framework and the Platform are committed to partner with the private sector to promote strong, sustainable, balanced and inclusive growth and boost economic resilience. The Platform will need to be launched during the Chinese G20 presidency, which is a good opportunity for Chinese Governments to provide policy guidance in line with inclusive growth for Chinese companies “going global”.

Added to this, the “Belt and Road” initiative proposed by the Chinese government, and the South-South Cooperation mechanism facilitated by UNDP, aim to help China establish platforms and channels for win-win and positive cooperation and exchange with the rest of the world. Through these initiatives, Chinese companies can learn and apply sophisticated operational practices for sustainable development. At the same time, Chinese companies’ experience and successful models can serve as practical guides and examples to companies based in other countries, especially other developing countries.

It is with the aim of supporting these goals that UNDP China, the Chinese Academy of International

Trade and Economic Cooperation under the Ministry of Commerce, and the Research Center of the State-owned Assets Supervision and Administration Commission of the State Council has jointly released *2015 Report on the Sustainable Development of Chinese Enterprises Overseas*. As the first-ever report jointly published by Chinese government think tanks and a United Nations agency covering the sustainable overseas development of Chinese companies. This Report will not only provide the international community with profound insights into Chinese companies' overseas operations, but also assist the Chinese government and corporate decision-makers with identifying and correcting potential challenges and improving them. In addition, the Report will provide a solid base for further academic and policy research with its first-hand statistics and case study information.

## 2. Objectives

To further facilitate the sustainable development by Chinese companies while operating overseas, the *2015 Report on the Sustainable Development of Chinese Enterprises Overseas* uses four principal indicators adopted by the international community for measuring sustainable development – namely corporate governance, economy, environment and society – and gauges Chinese companies' performance in sustainable development. This enables the international community to gain a better understanding of Chinese companies' overseas operations, and helps Chinese companies to enhance their capacity to achieve sustainable development. Specifically, this report aims to:

- Summarize the active attempts made by the Chinese government and other relevant institutions to encourage Chinese companies overseas to be as sustainable as possible;
- Increase transparency of the overseas operations and activities of Chinese companies, by providing systematic analyses of the sustainability performance of Chinese companies' outward direct investments and cooperation in terms of sustainability;
- Provide a new set of evidence that is important to support future academic and policy research in this area;
- Provide leading cases and examples to help the international community and Chinese companies to form a clearer understanding of what sustainable development means on the ground in a range of sectors and countries for other Chinese companies expanding overseas;
- Identify challenges and provide recommendations to the Chinese government, corporations, and host country governments and lay a solid foundation for future work in this area.

## 3. Definitions of Terms

### 3.1 Chinese companies

The Report focuses on the overseas operations of Chinese companies, including both state-owned enterprises (SOEs) and private-owned enterprises (POEs).

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### 3.2 Sustainable development and corporate social responsibility

The concept “sustainable development” has been defined in many ways. This Report uses the most frequently quoted definition from *Our Common Future*, also known as the *Brundtland Report* (United Nations World Commission on Environment and Development, 1987), which defines sustainable development as:

*“development that meets the needs of the present without compromising the ability of future generations to meet their own needs”*.<sup>①</sup>

Corporate Social Responsibility (CSR) is also interpreted in several ways, and that over the years, the international community have gradually reaches consensus on the definition of CSR. According to ISO26000, social responsibility is a concept whereby organizations (including enterprises) incorporate social and environmental factors into decisions and are willing to assume responsibility for the impacts of its decisions and activities on society and the environment. To put it in context, Corporate Social Responsibility (CSR) is a concept whereby enterprises voluntarily integrate the impacts of its operation on society and the environment into decisions and operation; through transparent and ethical behavior, enterprises take into account the expectations of stakeholders to create economic, social and environmental value.

The concept of sustainable development is closely related to that of CSR. Sustainable development is our shared goal in economy, society and environment enhancement, and thus responsible enterprises shall be a part of the group to live up to this broader social expectation. The enterprises that fulfill social responsibility may not reach sustainable development; and yet the enterprises that do not fulfill social responsibility can never achieve sustainable development and improve social well-being. Therefore, the ultimate goal of CSR should be to realize sustainable development, while CSR fulfillment is a necessary approach to accomplish sustainable development.

### 3.3 “Going global”

The term “going global” and its variants (such as “internationalization”, “globalization”) refer to Chinese companies engaging in business operations in overseas markets, including outward foreign direct investments, engineering contract projects, and export of labor service. Geographically, the term “go global” mainly refers to commercial or investment activities conducted outside of Mainland China, including activities in Hong Kong, Macao, and Taiwan.

## 4. Research Methodology

This Report is based on the analysis of first-hand data including that collected via questionnaires,

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<sup>①</sup> United Nations World Commission on Environment and Development (WCED 1987), available at <http://www.un-documents.net/wced-ocf.htm>



corporate interviews, and feedback from stakeholders. This Report aims to offer insight into overseas sustainability of Chinese companies through a diverse range of channels, dimensions, and perspectives.

#### 4.1 Chinese ODI data

Global, regional and industrial data included in this report was provided by CAITEC and SASAC.

#### 4.2 Questionnaire survey

To obtain first-hand data from companies, the *Questionnaire on the Sustainable Development of Chinese Companies Overseas* (See Annex 1) was developed by the Report Writing Team, based on internationally recognized initiatives, regulations and standards for measuring companies' sustainability practices. Moreover, the Report Writing Team held six consultation meetings with representatives from companies, academic institutions, domestic and international NGOs, embassies and consulates in China to discuss the Questionnaire before it was distributed.

#### 4.3 Case studies

Through presenting a series of case studies, this Report hopes to demonstrate a range of the attempts and efforts made by individual companies to achieve sustainability practices in various sectors.

The case selection was based on the following criteria:

- Reliability: whether the company was willing to provide and help verify relevant information;
- Representativeness: whether the case was relevant to and represents the topic of sustainable development (i.e., corporate governance, economy, environment and society);
- Significance: whether the case was from an industry closely monitored by the international community.

There are 13 corporate case studies in this report. The collection of case studies was carried out concurrently with the distribution of the questionnaire. First-hand information for the case studies was obtained through phone calls or face-to-face interviews with corporate managers, and by taking part in multiple rounds of internal meetings.

The case studies in this Report aim to provide positive examples and guide other Chinese companies through their overseas operations. It deserves to be pointed out that an absolute standard on "success" is very hard to reach, considering the multiple stakeholders and complex situations often involved in these cases. A commendable experience on one specific aspect does not necessarily mean that the companies encounter no obstacle in the host countries nor impeccable in their global operations. In addition, these case studies are not designed to be analytical, but rather presentations of good practices in certain areas; while it is recognized that difficulties may exist in some of the projects.



## 5. Report Writing Team

The United Nations Development Programme (UNDP) is the world's largest multilateral development aid organization; UNDP China is the major contributor to United Nations' efforts in China. In September 1979, UNDP signed a standard basic framework agreement with the Chinese government, giving UNDP access to operate in China. To date, UNDP China has mobilized over US\$1 billion to support China's development and has completed over 900 projects covering a wide range of sectors including agriculture, manufacturing, energy, public health, poverty reduction and economic restructuring. Keeping abreast with China's reform and opening up, UNDP China has now shifted its focus to three major areas: Poverty reduction, equity and governance; Climate change and environmental protection; and South-South cooperation.

The Chinese Academy of International Trade and Economic Cooperation (CAITEC) is a state-level comprehensive institution affiliated with the Ministry of Commerce of China, engaged with research, advisory services, news, publications, and with education and training. With equal attention given to academic theories, policies, and practical application, CAITEC is committed to providing policy recommendations to government, serving the local economy and contributing to the growth of companies. Locally conversant and globally minded, CAITEC provides services to and cooperates with governments, companies and various economic entities and organizations home and overseas with regard to investigation and research, advisory, publication and training, making significant contribution to building the market economy in China, promoting reform and opening up as well as facilitating China's integration into global economy and trades.

The Research Center of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council is the only research institution under SASAC dedicated to the reform of state-owned economy and state-owned enterprises. Adhering to the core missions of SASAC, the Research Center carries out forward-looking policy researches with real world applications, attaching equal importance to the theoretical understanding of strategic realignment of state-owned economy and deepening reforms of state-owned enterprises as well as formulating practical measures. The Research Center is committed to promoting state-owned economic restructuring on all fronts, boosting state-owned economy's vitality, control, influence, and resistance to risk as well as helping Chinese companies in their global expansions.

## 6. Limitations

As the first ever report aiming to offer a systematic and comprehensive overview of the sustainable development of globalized Chinese companies from their own perspective, this Report inevitably has its limitations.

Limitation of the time: To ensure that the Report can bring immediate and maximum benefits, all



processes, the distribution and collection of the questionnaire, on-site visits to companies, were under time-constraint to various extents. With regard to the distribution and collection of the questionnaire in particular, despite the generous four-month deadline allotted in the original plan, many companies had some difficulty in meeting the deadline.

Limitation of the sample size: This Report boasts the largest number of sample companies, the widest coverage among existing research of a similar nature. However, compared with the considerable number of Chinese companies seeking development overseas, the relatively small sample size used by the Report may hamper the representativeness of its research and analysis. Admittedly, it is possible that companies with more advanced overseas sustainable development performances had a higher incentive to answer to the questionnaire.

Limitation of the questionnaire survey: There does not exist a universal system or set of criteria for evaluating the sustainable development of companies at firm-level. The questionnaire compiled for this Report is the first large-scale attempt in China to understand the sustainable development of Chinese companies overseas. Due to a lack of examples or past experience in this research area, there is still room for improvement concerning the question design. Furthermore, some respondents were located in the headquarter of the companies in China, and their potentially less familiarity with their overseas operations may also affect the availability and accuracy of information collected to a certain extent. Lastly, some companies elected not to respond to certain questions due to confidentiality concerns.

Limitation of the China-focus: This survey was not shared with other non-Chinese companies, therefore it was not possible to gauge or assess in this report how Chinese companies are performing compared to others. Any of the positive or negative analysis in this report can only be interpreted as comparative across Chinese firms rather than comparative across all firms.

## II. Overview of the Globalization of Chinese Companies

This chapter presents a historic overview of the three means by which Chinese companies have “gone global” to date: outward direct investment (ODI), engineering contract projects, and export of labor service to complete the projects.

### 1. Outward Direct Investment

Outward direct investment from China is noted to rise globally. In 2014, Chinese enterprises made outward direct investments totaling US\$123.1 billion across all industries, up by 14.2% from the previous year. Financial investments totaled US\$15.9 billion and non-financial investments totaled US\$107.2 billion, corresponding to a year-on-year increase of 5.4% and 15.6%, respectively. By the end of 2014, 18,500 domestic investors had set up 29,700 establishments in 186 countries and regions, of which 84.7% were in developing and transition economies and 15.3% were in developed economies.<sup>①</sup> The total assets of these overseas companies at the year-end of 2014 amounted to US\$3.1 trillion and the aggregate ODI

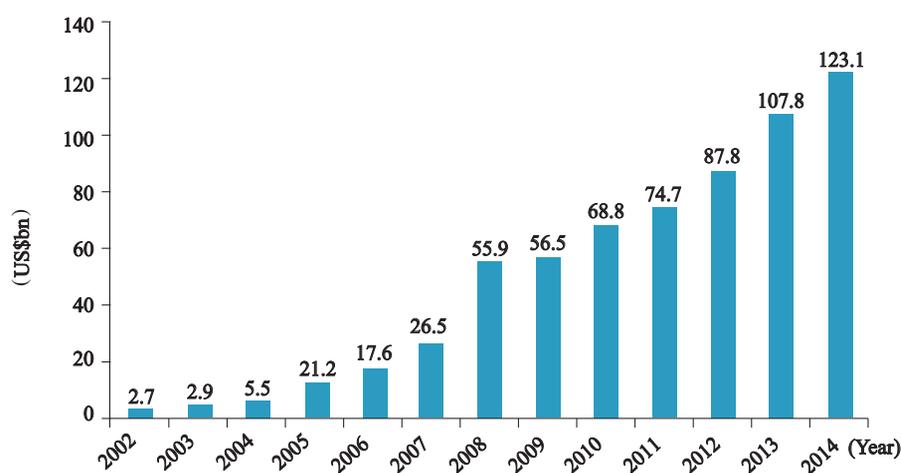


Figure 2.1: China's ODI flow (2002-2014)

Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment by the Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange.

Note: Data from 2002 to 2005 are for China's non-financial ODI only; data from 2006 to 2014 are for China's ODI across all industries.

<sup>①</sup> The statistical coverage of China's ODI from 2002 to 2005 was mainly non-financial investments calculated by the Ministry of Commerce and the National Bureau of Statistics. Starting from 2006, the Ministry of Commerce, National Bureau of Statistics and the State Administration of Foreign Exchange collected China's ODI data with full coverage. Therefore, the data from before 2006 cited by this Report are “non-financial investments”.

of all industries reached US\$882.6 billion.

From January to June 2015, China had made RMB343.2 billion (or US\$55.8 billion) of non-financial ODI, 29.2% higher than the previous year. By the end of June 2015, China’s cumulative non-financial ODI had reached RMB4.5 trillion (or US\$731.7 billion).

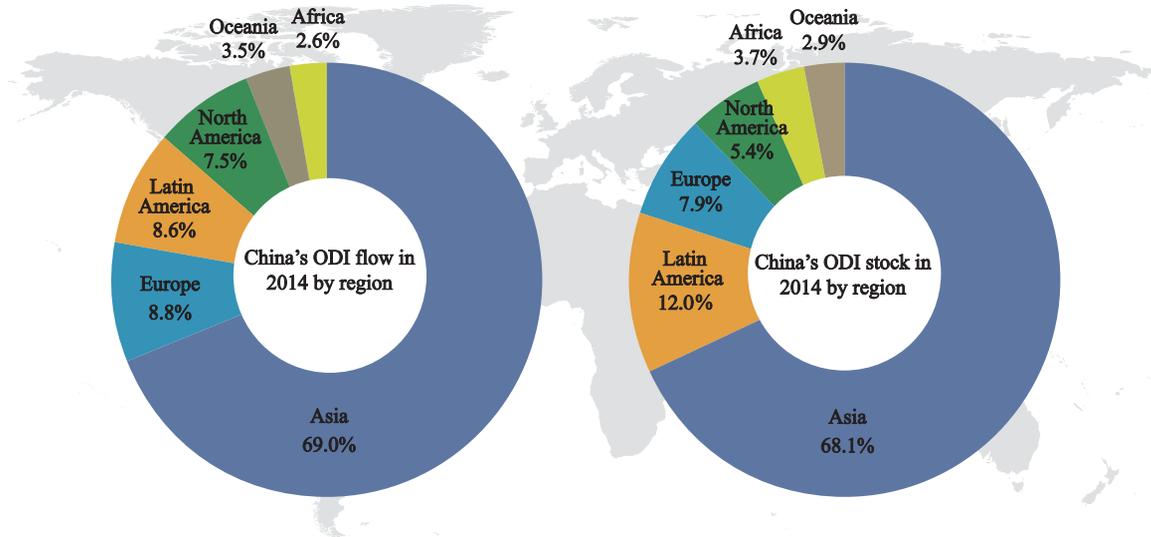


Figure 2.2: China's ODI in 2014 by region (flow and stock)

Source: 2014 Statistical Bulletin of China’s Outward Foreign Direct Investment by the Ministry of Commerce, the National Bureau of Statistics, and the State Administration of Foreign Exchange.

In 2014, China’s outward direct investment flow in developing economies amounted to US\$97.7 billion, accounting for 79.3% of its annual investment flow; up 6.5% from the previous year. China’s outward direct investment in developed economies reached US\$23.8 billion, representing 19.4% of the total annual investment flow and a 72.3% year-on-year sharp increase. Another US\$1.6 billion of outward direct investment went to economies in transition; down 29.1% from 2013.

Table 2.1: China's 2014 ODI flow by type of economy

	ODI flows (\$bn)	Increase from 2013 (%)	Percentage
Developed economies <sup>①</sup>	23.8	72.3	19.4
Developing economies <sup>②</sup>	97.7	6.5	79.3
Transition economies <sup>③</sup>	1.6	-29.1	1.3
Total	123.1	14.2	100.0

Source: 2014 Statistical Bulletin of China’s Outward Foreign Direct Investment by the Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange.

① Developed economies: including OECD members (except Chile, Mexico, South Korea and Turkey), new EU members which are not OECD members (Bulgaria, Croatia, Cyprus, Latvia, Lithuania, Malta, and Romania), and Andorra, Bermuda, Liechtenstein, Monaco and San Marino.

② Developing economies: including all economies not included in the other two categories. For statistical purposes, the data for China do not include those for Hong Kong SAR, Macao SAR and Taiwan.

③ Transition economies: including countries in southeast Europe, the Commonwealth of Independent States and Georgia.

In terms of industry, in 2014, ODI by Chinese companies covered all sectors of the national economy. As shown in figure 2.3, ODI stocks in leasing and commercial services industry (US\$322.4 billion by the end of 2014, 36.5%, primarily on investment holdings), the financial industry (US\$137.6 billion, 15.6%), the mining industry (US\$123.7 billion, 14%), the wholesale and retail industry (US\$103.0 billion, 11.7%), and the manufacturing industry (US\$52.4 billion, 5.9%) totaled US\$739.1 billion, accounting for 83.7% of China's ODI stock.

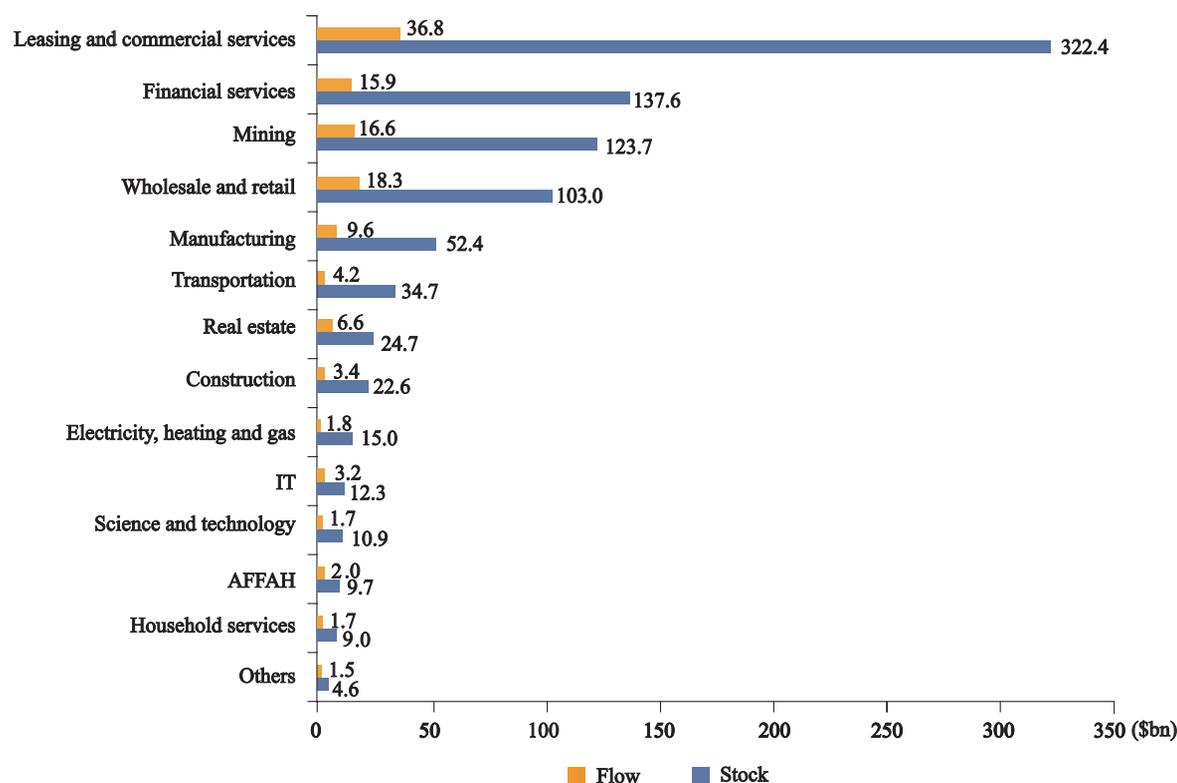


Figure 2.3: China's ODI by industry for 2014

Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment by the Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange.

Table 2.2 shows that in 2014, China's ODI flowed mainly towards the leasing and commercial services, wholesale and retail, and financial sectors in Asia; the construction, mining and financial sectors in Africa; the leasing and commercial services, financial and manufacturing industries in Europe; the leasing and commercial services, and financial industry in Latin America; the financial, mining and manufacturing industries in North America; and the mining industry in Oceania.

Table 2.2: China's ODI stocks: top five industries (by amount of stock) in each continent at the end of 2014

Region	Industry	ODI stock (\$bn)	Percentage
Asia	Leasing and commercial services	240.8	40.1
	Wholesale and retail	81.3	13.5
	Financial services	81.0	13.5
	Mining	74.3	12.4
	Transportation, storage and postal services	28.4	4.7
	Subtotal	505.7	84.2
Africa	Construction	8.0	24.7
	Mining	7.9	24.5
	Financial services	5.3	16.4
	Manufacturing	4.4	13.6
	Scientific research and technology service	1.4	4.2
	Subtotal	27.0	83.4
Europe	Leasing and commercial service	16.2	23.3
	Financial services	13.8	19.8
	Manufacturing	11.7	16.9
	Mining	10.8	15.5
	Wholesale and retail	5.5	7.9
	Subtotal	57.9	83.4
Latin America	Leasing and commercial service	60.5	57.0
	Financial services	19.4	18.3
	Wholesale and retail	8.4	8.0
	Mining	5.4	5.1
	Transportation, storage and postal services	3.5	3.2
	Subtotal	97.2	91.6
North America	Financial services	16.3	33.9
	Mining	8.4	17.5
	Manufacturing	7.2	15.0
	Leasing and commercial service	3.2	6.6
	Real estate	3.1	6.5
	Subtotal	38.1	79.5

Table 2.2 (continued): China's ODI stocks: top five industries (by amount of stock) in each continent at the end of 2014

Region	Industry	ODI stock (\$bn)	Percentage
Oceania	Mining	17.0	65.5
	Financial services	1.9	7.5
	Real estate	1.9	7.2
	Agriculture, forestry, fishing, and animal husbandry	1.1	4.1
	Manufacturing	1.0	3.7
	Subtotal	22.7	88.0

Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment by the Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange.

With respect to the shareholding nature of Chinese enterprises, despite state-owned enterprises still accounting for over half of total investments, the growth of ODI by private enterprises has been increasing. By the end of 2014, state-owned enterprises accounted for 53.6% of the non-financial ODI flows, while non-state-owned enterprises accounted for the remaining 46.4%, showing that the gap of ODI narrowed.

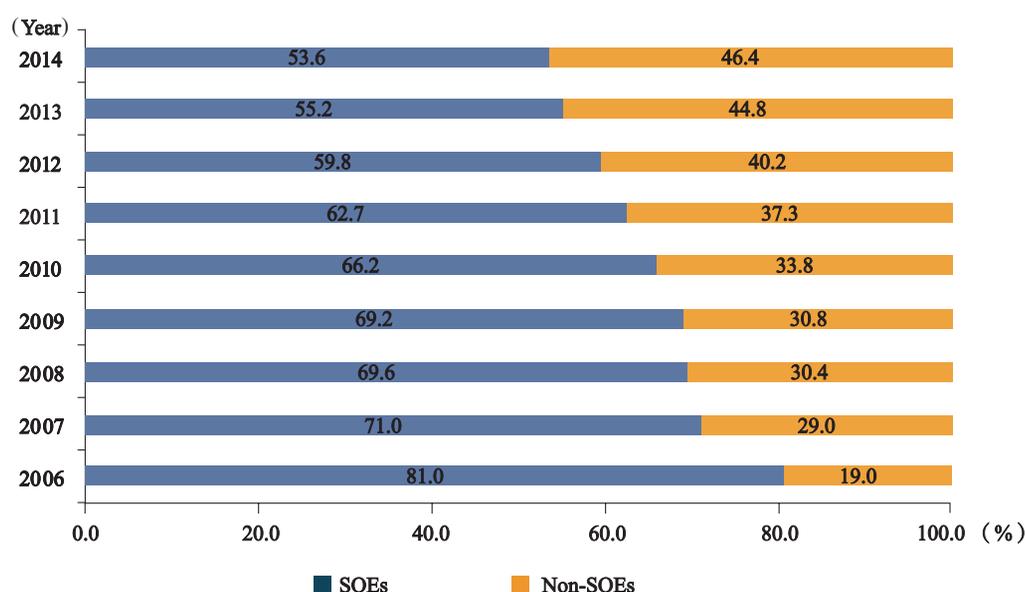


Figure 2.4: ODI flows of SOEs and non-SOEs

Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment by the Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange.

## 2. Engineering Contract Projects and Labor Service Cooperation

China's engineering contract projects have been growing at a relatively high speed for many years.

Over eight years from 2006 to 2014, the value of newly-signed contracts and completed overseas contract projects grew at 14.3% and 21.5% per year on average respectively.

According to statistics from the Ministry of Commerce, the value of completed turnover of overseas contract projects reached RMB 874.8 billion (or US\$142.4 billion), up 3.8% from 2013; the value of newly signed contracts reached RMB 1,178.0 billion (or US\$191.8 billion), up 11.7% from 2013. By the end of 2014, the cumulative value of China’s signed overseas contract projects totaled US\$1,361.6 billion, while completed projects totaled US\$935.2 billion.

Statistics released by the Ministry of Commerce show that, from January to June 2015, the value of completed overseas contract projects totaled RMB 413.9 billion (or US\$67.5 billion) – with a year-on-year increase of 9.7% – and the value of newly signed projects reached RMB 531.2 billion (or US\$86.7 billion), a year-on-year increase of 6.9%. By the end of June 2015, the cumulative values of signed and completed overseas contract projects by Chinese companies were US\$1,448.3 billion and US\$1,002.7 billion, respectively.

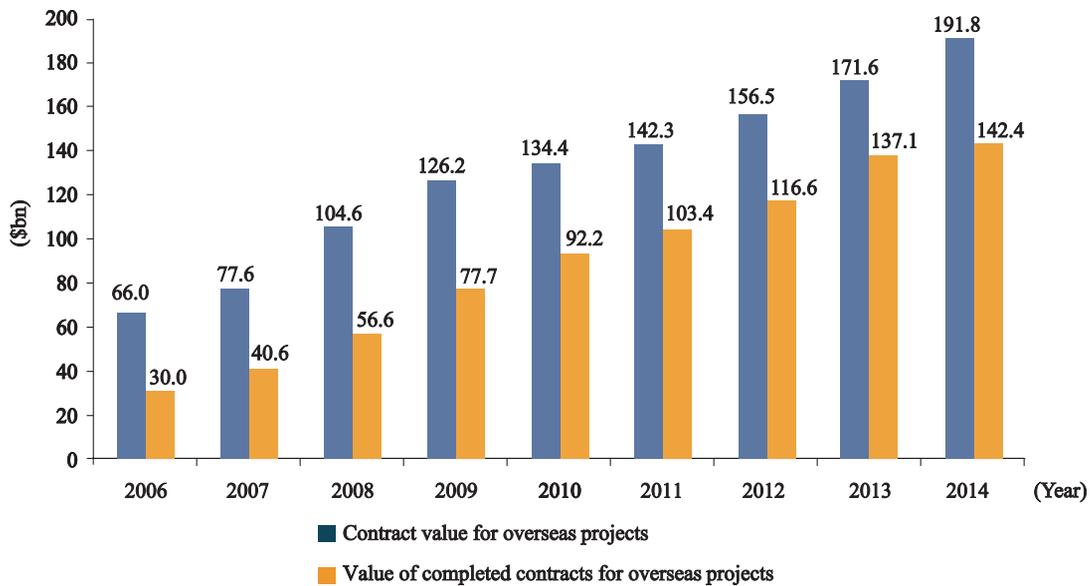


Figure 2.5: Value of signed and completed contracts for China’s overseas projects (2006-2014)

Source: Based on data from MOFCOM.

With respect to the geographical distribution of China’s overseas contract projects awarded to Chinese companies in 2014, Asia ranked first in terms of both the value of newly-signed projects and completed contract projects. Africa took the second place, followed by Europe, Latin America, Oceania and North America, respectively. Furthermore, China’s overseas contract projects in Asia and Africa accounted for more than 80% of the total value, both in newly-signed projects and completed contract projects, which indicates that such projects were mainly concentrated in developing countries and regions such as Asia and Africa (See Figure 2.6).

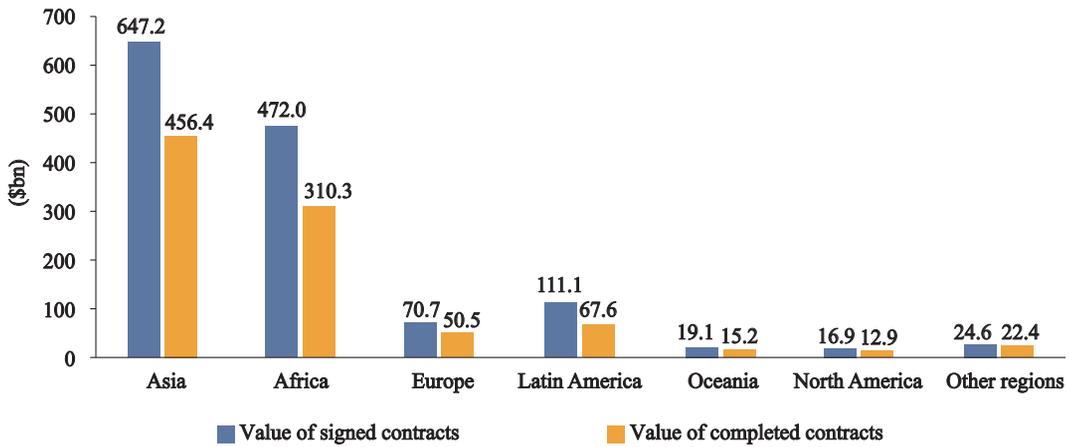


Figure 2.6: Cumulative contract value and completed contract value for China's overseas contract projects as of 2014 by region

Source: Based on data from MOFCOM.

With respect to the industry distribution of overseas projects awarded to Chinese companies in 2014, transportation construction ranked the first in terms of both the value of newly signed projects and the value of completed projects. This is followed by housing construction, power engineering construction, petrochemical engineering, and communications engineering, respectively. The total value of newly signed and completed projects of the above mentioned five industries accounts for 83.5% and 82.3% of the year's total, respectively.

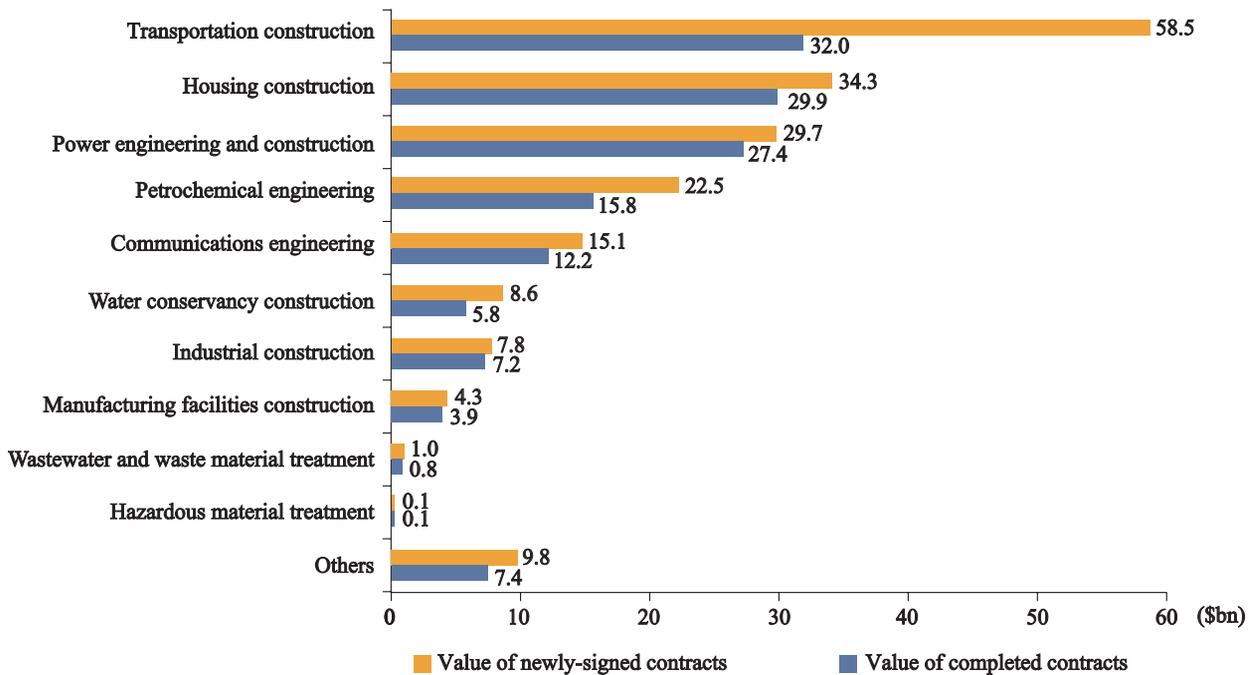


Figure 2.7: Contract value and completed contract value of China's overseas contract projects in 2014 by industry

Source: Based on data from MOFCOM.

The scale of China's overseas labor service grew steadily in recent years. Over an eight-year period

(between 2006 and 2014), the number of Chinese workers dispatched overseas and the number of workers stationed overseas at year-end grew on averages at 6.1% and 5.1% per year, respectively. In 2014, China sent 562,000 workers from all trades overseas, an increase of 35,000 (or 6.6%) on the previous year. Of this total 269,000 workers were required for contract projects, and contract labor service cooperation programs accounted for the remaining 293,000. Approximately 1.01 million workers were stationed overseas at the end of 2014, 153,000 more than the previous year. By the end of 2014, a cumulative of 7.48 million workers had been dispatched overseas. With respect to the geographical distribution of China's overseas contract labor service, Asia was the top destination in terms of the number of the Chinese workers overseas from all trades in 2014 and the total number of the dispatched workers, followed by Africa.

From January to June 2015, China sent 264,000 workers of all trades overseas, an increase of 9,000 (or 3.5%) in the same period in 2014. Of this total, 135,000 workers were required for contract projects, and other contract labor service projects accounted for the remaining 129,000. Approximately 1.02 million workers were stationed overseas by the end of June 2015, an increase of 79,000 compared to the same period in 2014. By the end of June 2015, a cumulative of 7.74 million overseas contract labor service workers had been dispatched overseas.

### III. Policies and Initiatives to Promote Sustainable Development of Chinese Companies Overseas

The overseas activities of Chinese companies have been a major concern of Chinese government and other stakeholders over the last decade and more. This chapter summarizes and analyzes such efforts and identifies potential gaps.

#### 1. Chinese Government

Over the last decades, the Chinese government has released a series of policies and guidelines to facilitate the sustainable development of Chinese companies overseas. Contained in this Report are the collection and analyses of relevant policies and guidelines promulgated by the Chinese government. Due to the large number and limited space, 33 of the most relevant policies and regulations are selected standing on the following three criteria:

- They are related to China’s overseas rather than domestic investments;
- They are related to sustainability;
- They are currently in force.

Table 3.1: Key policies and regulations guiding and governing the sustainable overseas development of Chinese companies

Issue Date	Issuer	Title
2002	Ministry of Foreign Trade and Economic Cooperation (MFTEC)	Comprehensive Evaluation Measures for the Performance of Overseas Investments (Trial)
2002	MFTEC, State Administration of Foreign Exchange (SAFE)	Interim Measures for Joint Annual Inspection of Overseas Investment
2004	Ministry of Commerce (MOFCOM)	Measures for the Administration of Training of Workers Dispatched Overseas
2004	MOFCOM	Reporting System for Investment and Operation Obstacles in Foreign Countries
2005	MOFCOM	Notice of the State Administration of Foreign Exchange Regarding Adjustment to the Administration of Financing Guarantee from Domestic Banks for Enterprises with Foreign Investment

Table 3.1 (continued): Key policies and regulations guiding and governing the sustainable overseas development of Chinese companies

Issue Date	Issuer	Title
2005	State Administration of Work Safety (SAWS), Ministry of Foreign Affairs (MFA), MOFCOM, State-owned Assets Supervision and Administration Commission (SASAC)	Notice of the State Administration of Work Safety, Ministry of Foreign Affairs, Ministry of Commerce, State-owned Assets Supervision and Administration Commission on Improving Work Safety Supervision of Overseas Chinese Enterprises
2005	General Office of the State Council	Opinions on Strengthening the Security and Protection of Overseas Chinese Enterprises and Staff
2007	MOFCOM, Ministry of Finance, People's Bank of China, All-China Federation of Industry and Commerce (ACFIC)	Opinions of the Ministry of Commerce, the Ministry of Finance, the People's Bank of China and All-China Federation of Industry and Commerce on Encouraging and Guiding Overseas Investment and Cooperation by Private Enterprises
2007	State Forestry Administration (SFA), MOFCOM	Guidelines on Sustainable Forest Cultivation for Chinese Enterprises Overseas
2008	MOFCOM, MFA, SASAC	Notice of the Ministry of Commerce, Ministry of Foreign Affairs, State-owned Assets Supervision and Administration Commission on Further Regulating Overseas Investment and Cooperation of Chinese Enterprises
2008	State Council	Administrative Rules for Overseas Contracting
2009	SFA, MOFCOM	Guidelines on Sustainable Operation and Utilization of Overseas Forests by Chinese Enterprises
2009	MOFCOM, Ministry of Housing and Urban-Rural Development (MOHURD)	Measures for the Administration of Overseas Contracting Qualification
2010	MOFCOM, China Export and Credit Insurance Corporation	Notice on Strengthening Risk Prevention in Overseas Economic and Trade Cooperation Zones
2010	MOFCOM, MFA, National Development and Reform Commission (NDRC), Ministry of Public Security (MPS), SASAC, SAWS, ACFIC	Provisions on the Security Management of Overseas Chinese Institutions and Staff
2010	MOFCOM	Overseas Security Risk Warning and Information Notification System in Overseas Investment and Cooperation
2011	MOFCOM, MFA, SASAC, ACFIC	Guidelines on Security Management of Overseas Chinese Enterprises (Institutions) and Staff
2011	SASAC	Interim Measures for the Administration of Overseas State-owned Property Rights of Central Enterprises
2011	SASAC	Interim Measures for the Supervision and Administration of Overseas Assets of Central Enterprises
2012	MOFCOM	Guidelines on Security Management of Overseas Chinese Enterprises and Staff

Table 3.1 (continued): Key policies and regulations guiding and governing the sustainable overseas development of Chinese companies

Issue Date	Issuer	Title
2012	China Banking Regulatory Commission	Green Credit Policy
2012	MOFCOM, International Communication Office of the CPC Central Committee, MFA, NDRC, SASAC, National Bureau of Corruption Prevention, ACFIC	Opinions on Corporate Culture Development of Chinese Enterprises Overseas
2012	SASAC	Interim Measures for the Supervision and Administration of Overseas Investment of Central Enterprises
2013	MOFCOM, SAWS, MFA, NDRC, MOHURD, SASAC	Notice of the Ministry of Commerce, State Administration of Work Safety, Ministry of Foreign Affairs, National Development and Reform Commission, Ministry of Housing and Urban-Rural Development, State-owned Assets Supervision and Administration Commission on General Inspection of Work Safety Governance of Chinese Enterprises Overseas
2013	MOFCOM, Ministry of Environmental Protection	Guidelines on Environmental Protection in Overseas Investment and Cooperation
2013	SASAC	Interim Measures for Emergency Management of Central Enterprises
2013	MOFCOM	Provisions on Regulating Competition in Overseas Investment and Cooperation
2013	MOFCOM, MFA, MOHURD, National Health and Family Planning Commission, SASAC, SAWS	Provisions on Responding to and Addressing Security Incidents in Overseas Investment and Cooperation
2013	MOFCOM, MFA, MPS, MOHURD, General Administration of Customs, State Administration of Taxation, State Administration for Industry and Commerce, General Administration of Quality Supervision, Inspection and Quarantine, SAFE	Trial Measures for Negative Credit Record in Overseas Investment, Cooperation and Foreign Trade
2013	MOFCOM	Notice of the Ministry of Commerce on Strengthening the Categorized Administration of Chinese Personnel Dispatched Overseas for Overseas Investment and Cooperation
2014	MOFCOM	Guidelines on Intellectual Property Right of Overseas Enterprises
2014	MOFCOM	Measures for the Administration of Overseas Investment
2015	NDRC, MFA, MOFCOM	Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road

Source: compiled by the Report Writing Team

The following discussion is based on key policies and measures in Table 3.1 and others that are not listed in the table.

### 1.1 Category I: Corporate governance policies

- **Security and risk management**

Overseas security and risk management are among the primary concerns of China's overseas investment policies. Of the 33 policies promoting sustainability, at least eight are devoted to the personal safety of overseas employees and work and operational safety concerns. For instance: in August 2010, the Ministry of Commerce released the *Overseas Security Risk Warning and Information Notification System in Overseas Investment and Cooperation*. It aims to improve the overseas security risk warning and information notification systems for Chinese companies involved in overseas investments and cooperation, offer guidance to companies on following the shifting global security climate, and adopt effective measures to prevent and mitigate various risks.

In February 2012, the *Guidelines on Security Management of Overseas Chinese Enterprises and Staff* released by the Ministry of Commerce require globalized Chinese companies to enhance the preventive measures for overseas risks, set up and continuously improve their overseas security management system, and boost their competence in managing overseas security risks and handling emergencies, so as to ensure the security of Chinese companies, institutions and employees overseas.

In July 2013, the *Provisions on Responding to and Addressing Security Incidents in Overseas Investment and Cooperation* (Shang He Fa [2013] No. 242) jointly issued by the Ministry of Commerce, Ministry of Housing and Urban-Rural Development, Ministry of Foreign Affairs, SASAC, and State Administration of Work Safety require Chinese multinational companies to set up well-rounded emergency response and mitigation mechanisms for potential overseas security incidents, set forth standard emergency procedures to protect the lives and properties of overseas Chinese companies, institutions and employees.

- **Corporate culture development**

The Chinese government has also prioritized the corporate culture development of Chinese companies in order to improve their sustainability overseas. In April 2012, the Ministry of Commerce, working with the International Communication Office of the Communist Party of China Central Committee, the Ministry of Foreign Affairs, the National Development and Reform Commission, the SASAC, the National Bureau of Corruption Prevention, and the All-China Federation of Industry & Commerce released the *Opinions on Corporate Culture Development of Chinese Enterprises Overseas* (Shang Zheng Fa [2012] No. 104). The Opinions encourage Chinese companies to release corporate information to the public in a timely manner in order to ensure transparent and open operations. The Opinions also urge companies to build strong business ethics, combat commercial bribery and ensure fair competition:

*Corporate ethics is distilled from corporate culture. "Small success lies in intelligence, while great*

*success lies in ethics". It is imperative for Chinese companies overseas to regard corporate ethics as the key to achieving sustainable development. In practice, more efforts are needed in raising the ethical awareness of staff members, advocating traditional virtue and the sense of honor and shame, cultivating better moral standards, gaining deeper understanding of the damage caused by unethical acts that pursue pure profit at the expense of the interest of consumers. Companies should strike a balance between ethics and profit, incorporating ethics into every link of operation and administration to ensure corporate integrity. Centering on integrity in corporate culture development, overseas companies must integrate integrity into their essence and code of conduct, set up well-rounded rules to regulate operation and administration of the company as well as employees' behaviors. Only by taking these steps can Chinese companies overseas build excellent team with trustworthy employees, technology, products and competence and create a trustworthy image of Chinese companies.*

- **Corporate social responsibility management**

The SASAC of the State Council has adopted a series of measures to promote CSR of central enterprises.

The 2008 *Guidelines on Fulfillment of Social Responsibility by Central Enterprises*, clearly set forth guidelines, overall requirements, fundamental principles, main contents and driving mechanisms with regard to the fulfillment of social responsibilities by central enterprises.

In 2011, the SASAC issued the *Implementation Guidelines for the Twelfth Five-year Plan for the Harmonious Development of Central Enterprises*, stating the need to reinforce the integrity, environmental awareness, security, vitality and accountability of central enterprises.

In 2012, the SASAC formed the SASAC Steering Committee for Corporate Social Responsibility of Central Enterprises to enhance the management of CSR activities and help central enterprises build more sophisticated CSR management systems.

Meanwhile, the SASAC also strove to boost CSR capabilities and the competence of central enterprises by holding annual CSR conferences, facilitating enterprises to publish CSR reports, compiling good CSR role models, enhancing CSR training, and strengthening both domestic and international exchanges on CSR practices.

## 1.2 Category II: Economic policies

To help Chinese companies achieve sustainable development overseas, the Chinese government encourages fair competition, as well as reinforcing credibility system for companies engaging in overseas investment and cooperation. For example, in March 2013, the Ministry of Commerce issued the *Provisions on Regulating Competition in Overseas Investment and Cooperation* (Shang He Fa [2013] No. 88) to encourage and protect fair competition. As the ministerial regulations supplementing the *Anti-Unfair Competition Law*, the Provisions include a systematic explanation of unfair competition in overseas investment and cooperation activities and the corresponding penalties (for example, fine, and lose the opportunity to enter overseas market). The Guidelines further required that companies investing overseas should only seek mutual benefit and joint development and establish sound decision-making and



quality management systems for overseas projects.

In July 2013, the *Trial Measures for Negative Credit Record in Overseas Investment, Cooperation and Foreign Trade* (Shang He Fa [2013] No. 248) was jointly released by the Ministry of Commerce and nine other government agencies including the Ministry of Foreign Affairs and the Ministry of Public Security. The Trial Measures clearly state that companies and individuals with bad credit records shall be registered to provide risk warnings to domestic and overseas stakeholders.

### 1.3 Category III: Environmental policies

To join hands with host countries in overcoming environmental challenges, offer guidance on environmental protection measures to Chinese companies in the process of internationalization, and promote the sustainability of overseas investment and cooperation, the Chinese government has adopted a series of policies concerning environmental protection in overseas investment. For example, on August 27<sup>th</sup>, 2007, the Ministry of Commerce joined the State Forestry Administration in releasing the *Guidelines on Sustainable Forest Cultivation for Chinese Enterprises Overseas*, which is the first industry standards and self-regulatory guidelines for Chinese companies engaged in forest cultivation overseas. On March 31<sup>st</sup>, 2009, the two ministries jointly released the *Guidelines on Sustainable Operation and Utilization of Overseas Forests by Chinese Enterprises*, helping and regulating Chinese companies with regard to overseas resource development and timber processing and utilization. The Guidelines help Chinese companies to better profit from, use, and protect overseas forest resources and strengthen self-regulation.

On February 24<sup>th</sup>, 2012, the China Banking Regulatory Commission released the *Green Credit Policy*, which stipulates in Article 21:

*“Financial institutions should strengthen the management of environmental and social risks of overseas projects they finance, ensuring that project initiator complies with relevant laws and regulations on environmental protection, land use, health and safety in the host country or region; meanwhile, such financial institutions should publicly undertake applicable international conventions or standards in processing overseas projects which are to be granted credit, in order to ensure that the financing process is conducted substantially in line with international good practices.”*

In February 2013, building on theory and practical experience from the international community and taking into account China’s current state, the Ministry of Commerce and the Ministry of Environmental Protection enacted the *Guidelines on Environmental Protection in Overseas Investment and Cooperation*. As the first guidance from the Chinese government on environmental protection in overseas investment and cooperation of Chinese companies, the Guidelines encourage companies to fulfill due environmental protection obligations, raise their awareness of environmental protection, and strike a balance between corporate development and environmental protection to achieve mutual benefits with local stakeholders.





#### 1.4 Category IV: Social policies

The Chinese government attaches large significance to employment management of Chinese companies overseas, aiming at protecting the lawful rights and interests of all employees and to foster favorable labor relations. In March 2011, the Ministry of Commerce, the Ministry of Foreign Affairs, SASAC and the All-China Federation of Industry and Commerce jointly released the *Guidelines on Security Management of Overseas Chinese Enterprises (Institutions) and Staff*, in order to further strengthen and regulate employee management in Chinese companies (institutions) operating overseas, offer guidance to overseas Chinese companies to achieve mutual benefits and joint development objectives, as well as following the labor, employment policies and regulations in overseas investment and cooperation activities in host countries. Furthermore, the Guidelines specifically point out that Chinese employees should only be dispatched to overseas sites based on actual staffing needs, and that companies should endeavor to create more employment opportunities for local communities and localize their operations.

In October 2013, the *Notice on Strengthening the Categorized Administration of Chinese Personnel Dispatched Overseas for Overseas Investment and Cooperation* (Shang He Han [2013] No. 874) released by the Ministry of Commerce divided Chinese personnel dispatched overseas into three categories: workers, personnel dispatched for overseas projects and personnel dispatched for overseas investment. By setting forth detailed rules for each categories, this policy serves to protect the lawful rights and interests of all three types of Chinese personnel dispatched overseas and to promote the sound and sustainable development of overseas investments and cooperation.

#### 1.5 Category V: Comprehensive policies

The majority of policies released by the Chinese government on the overseas sustainable development of Chinese companies contain comprehensive reform measures covering two or more of the aforementioned four aspects. The measures mostly relate to the following aspects:

- **The macro-level planning:**

In 2006 and 2011, the Chinese government promulgated the *Eleventh Five-year Plan for National Economic and Social Development of the People's Republic of China* (the Eleventh Five-year Plan) and the *Twelfth Five-year Plan for National Economic and Social Development of the People's Republic of China* (the Twelfth Five-year Plan) respectively. Both roadmaps emphasize the notion of mutual benefits and “win-win” outcomes. Furthermore, the Twelfth Five-year Plan clearly states that Chinese companies and overseas cooperation projects “going global” should fulfill due social responsibilities and contribute to the wellbeing of local people.

Chapter 37 of the Eleventh Five-year Plan on “*Promoting International Economic Cooperation*” points out the need to improve the system and policies which facilitated cross-border mobility and optimizes the allocation of elements of production, as well as the plan to promote economic and technological cooperation with neighboring and other countries in order to achieve mutual benefits.





The Plan also encourages those companies that were able to engage in outward direct investment to expand their overseas cooperation and exploration activities while leveraging the unique strengths of each party, seeking equal footing and mutual benefits. Meanwhile, companies are also urged to fortify the systems for promoting and protecting overseas investments, and strengthen the overall coordination and risk management of overseas investments as well as the supervision of overseas state-owned assets.

Chapter 52 of the Twelfth Five-year Plan on “*Bringing in*” and “*Going Global*” states that the government should respect market trends and the self-willingness of companies to steer companies of different ownership types to engage in overseas investment and cooperation activities and partake in cooperation projects that can improve the wellbeing of local people. The Plan also stipulates the need for companies to invest more in researching the overseas investment environment and strengthening scientific evaluations of investment projects. Special emphasis is placed on the role of Chinese companies “going global” and overseas cooperation projects in fulfilling social responsibilities and aiding local development projects. The Plan also sets forth the goal to adopt optimized structures and innovative approaches for foreign aid, and to increase economic and technological aid to developing countries on public welfare projects, public facilities and capability building initiatives.

On March 28, 2015, on the authorization of the State Council, the National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce released the *Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road*, clearly outlining the background, principles, framework, cooperation priorities and cooperation mechanisms for the Silk Road Economic Belt and the 21<sup>st</sup>-Century Maritime Silk Road (hereinafter referred to as the “Belt and Road Initiative” or the “Initiative”) and proactive measures to be adopted by the Chinese government. The cooperation priorities of the Initiative include policy coordination, the connectivity of facilities, unimpeded trade, financial integration and people-to-people bonds. The “Belt and Road Initiative” is in line with the purposes and principles of the UN Charter. Advocating peace and cooperation, openness and inclusiveness, mutual learning and mutual benefits, practical cooperation in all fields, and works to build a community of shared interests and responsibility supported by mutual political trust, economic integration and cultural inclusiveness.

- **The provision of public information**

To provide companies with authoritative information on the investment and cooperation environment and to help “going global” companies raise their economic and social performance as well as reduce potential risks relating to overseas investments and cooperation, for six consecutive years since 2009, the Ministry of Commerce released *Guides to Overseas Investment and Cooperation by Country (Region)* on its website, which cover over 160 countries and regions and could be downloaded free of charge.<sup>①</sup> Among other areas, the Guides provide information on: the

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<sup>①</sup> Guides to Overseas Investment and Cooperation by Country (Region) (2014) covers 166 countries. The Chinese version can be downloaded at: <http://fec.mofcom.gov.cn/gbzn/guobiezhinan.shtml>. As each Guide is lengthy and the Guides are only available in Chinese, for ease, an English version of the table of content is included in the Annex 2 for illustration only.



political, economic, social and cultural situations of host countries and other elements relevant to the investment environment; detailed procedures for investing in host countries; suggestions on building and maintaining amicable relationships with local governments, unions, residents and media; and key contact persons in case of emergencies.

In March 2013, the Ministry of Commerce compiled and printed the *Compilation of Documents on Establishment of Enterprises Engaging in Overseas Investment and Cooperation*, which was also published on its official website. The Compilation includes a variety of policy documents released by the Ministry of Commerce until February 2013, which offered effective guidance and support for the establishment of Chinese companies overseas. By releasing the Compilation, the Ministry of Commerce aims to provide companies with guidance on conducting compliant operations, fulfilling social responsibilities, raising awareness on ecological resources and environmental protection, and facilitating the convergence of interests and cultures.

- **The strengthening of international coordination**

To help Chinese companies achieve sustainability overseas, a number of Chinese government agencies, including the Ministry of Commerce, the State Administration of Taxation and General Administration of Customs have strengthened international coordination on many fronts. To date, the Ministry of Commerce has signed bilateral investment protection agreements with over 100 countries and regions. Meanwhile, China has also signed investment-related free-trade zone agreements or preferential trade arrangements with multiple countries (regions) including ASEAN, New Zealand, Singapore, Hong Kong and Macao. Since the 1980s, the State Administration of Taxation has been negotiating and signing taxation agreements on behalf of the Chinese government. After 30 years of diligent work, China's web of taxation agreements now extends to 101 countries and regions in six continents (including agreements with Hong Kong and Macao on eliminating double taxation), covering major origins of inward investment and destinations of outward investment, as well as taxation interests and processes of both China and host countries receiving investment. Thus far, the General Administration of Customs has signed a total of 134 bilateral cooperation agreements with 73 countries and regions. Centered on "regulatory mutual recognition, enforcement assistance and information exchange", these agreements help to build a more effective communication mechanism among customs, promote trade liberalization and cooperation, and improve the overseas investment environment for Chinese companies.

## 2. Measures Adopted by Other Chinese Institutions in Promoting Sustainable Development of Chinese Companies Overseas

### 2.1 Financial institutions

Several Chinese financial institutions have voluntarily adopted self-managed environmental impact assessments to promote the sustainable overseas development of Chinese companies. Notably, the Export-



Import Bank of China, the China Development Bank and a few other major financial institutions that finance overseas investments for Chinese companies have developed environmental policies and impact assessment regulations. For instance, in 2004, the China Development Bank published its *Lending Assessment Handbook*, which provides specific guidelines for the lending process, covering, among other items, borrower assessments, the management of the review team for environmental evaluations, and financing standards for projects in various industries. It also requires that every loan application should be accompanied by an environmental evaluation report. In 2006, the China Development Bank further issued the *Framework for Environmental Assessment of Micro and Small Businesses' Loan Projects*, which encourages companies accepting small loans or microcredit to operate in a more environmentally friendly way. Over the years, the China Development Bank also released a number of complementary policies, including *Guidelines for the China Development Bank Reviewing the Development of Environmental Protection Projects*, *Guidelines of the China Development Bank for Special Loan Programs for Energy Conservation and Emission Reduction Projects*, and the *China Development Bank Work Plan for Pollution and Emission Reduction Lending Programs*. Similarly, the Export-Import Bank of China formulated the *Guidelines for Environmental and Social Impact Assessments of the Export and Import Bank of China's Loan Projects* in 2007, released *Environmental Protection Policies of the Export and Import Bank of China* in 2008, and created the *Framework for Environmental Impact Assessments* in 2011. In May 2007, the Export-Import Bank of China and the International Finance Corporation under the World Bank signed an agreement to support Chinese companies' investment projects in emerging markets and Africa, offering advice on how to operate in an environmentally-friendly manner. By publishing and implementing the above policies, both the China Development Bank and the Export-Import Bank of China have fairly effectively influenced Chinese companies to fulfill their social and environmental responsibilities.

## 2.2 Industry associations

Industry associations in China commonly serve as a bridge between companies and the government. Industrial standards adopted by these associations supplement government policies, and can help the sustainable development of member companies.

In 2014, China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters released its *Social Responsibility Guidelines for China's Overseas Mining Investment*. As the first guidelines in China compiled by an industry association, this document received extensive attention from the international community. The organization is in the process of developing the action plan and corporate capacity building initiative for the next three years, striving to turn principles advocated by the Guidelines into concrete actions.

In 2014, building on reports voluntarily submitted by 66 Chinese companies and their branches, China International Contractors Association edited and released the *Report on Localization Practice of China's International Contractors*, sharing the practical experience of China's international contractors in localizing their operations and providing suggestions on enhancing corporate social responsibility awareness and practices.





Industry associations, including the China Council for the Promotion of International Trade, the China Chamber of Commerce for the Private Sector, the China-Africa Business Council and the China Chamber of Commerce of Foodstuffs and Native Produce, have also been actively promoting the overseas sustainable development of their members by publishing reports, providing guidelines and organizing advocacy events.



## IV. Questionnaire and Sample Profile

This chapter introduces the 254 respondents to the questionnaire developed in order to better understand the trends and gaps in the sustainable development practices of Chinese companies overseas. This Questionnaire covers four aspects: corporate governance, economy, environment and social. The distribution of the sample companies in terms of shareholding nature, geographical location and industry coincide with and relatively reflect the due distribution of Chinese “going global” companies. The data underlying this can also be used as baseline for future analysis.

### 1. Questionnaire Design and Distribution

Three major factors were considered in the design of the questionnaire:

- (1) International norms and standards;
- (2) Actual state of Chinese companies’ overseas operations; and
- (3) Key concerns of the international community.

The questionnaire comprises five major categories, namely general company profile, corporate governance, economic issues, environmental issues and social issues. It contains more than 60 questions in total with 18 sub-categories.

Table 4.1: Questionnaire design logic

Areas of Sustainable Development	Sub-categories in the questionnaire	International Norms and Standards (such as ISO 26000 and those adopted by Global Compact, GRI, etc.)	Actual State of Chinese Companies’ Overseas Operations	Key Concerns of the International Community
Corporate Governance	Risk management mechanism	✓	✓	✓
	Corporate social responsibility management mechanism	✓	✓	✓
	Stakeholder communication mechanism	✓	✓	✓
	Internationalized management		✓	✓

Table 4.1 (continued): Questionnaire design logic

Areas of Sustainable Development	Sub-categories in the questionnaire	International Norms and Standards (such as ISO 26000 and those adopted by Global Compact, GRI, etc.)	Actual State of Chinese Companies' Overseas Operations	Key Concerns of the International Community
Economic Issues	"Going global" strategy		✓	✓
	Compliance	✓	✓	✓
	Localized operations	✓	✓	✓
	Fair competition	✓	✓	✓
	Operating income	✓	✓	✓
Environmental Issues	Compliance	✓	✓	✓
	Environment management system	✓	✓	✓
	Energy consumption	✓	✓	✓
	Emission, wastewater discharge and waste management	✓	✓	✓
	Biodiversity protection	✓	✓	✓
Social Issues	Compliance	✓	✓	✓
	Labor relations	✓	✓	✓
	Community issues	✓	✓	✓
	Public welfare investment	✓	✓	✓

The questionnaire was distributed mainly via the following two channels:

(1) The SASAC Research Center was responsible for distributing and collecting the questionnaire among central enterprises under the supervision of SASAC; and

(2) Provincial-level Departments of Commerce were responsible for distributing and collecting the questionnaire among local state-owned enterprises and private companies, with the Chinese Academy of International Trade and Economic Cooperation under China's Ministry of Commerce acting as the coordinator.

The surveyed companies completed the questionnaire during December 2014 and March 2015. A total of 254 valid responses were received.

## 2. Sample Profile

Ownership type: For the 254 companies responded to the survey, 36% are state-owned enterprises and 63% are private companies.

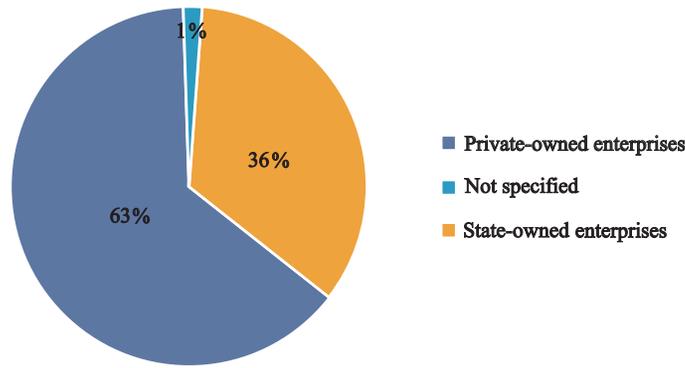


Figure 4.1: Sample profile: ownership type

Region of investment: As shown in Figure 4.2, 63% of the companies (160 companies) have investments in Asia, more than any other region. 13% of the companies (or 34 companies) have investments in South America, the lowest among all continents.

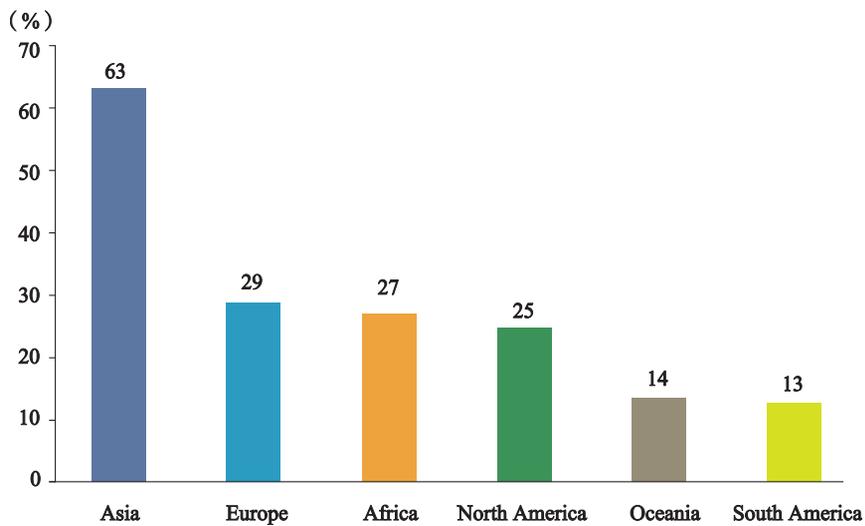


Figure 4.2: Sample profile: region of investment

Overseas investment scale: As shown in Figure 4.3, investments made by surveyed companies range from \$1 million to \$100 million. Companies whose investment exceeds \$100 million take up a relatively higher share of the surveyed companies.

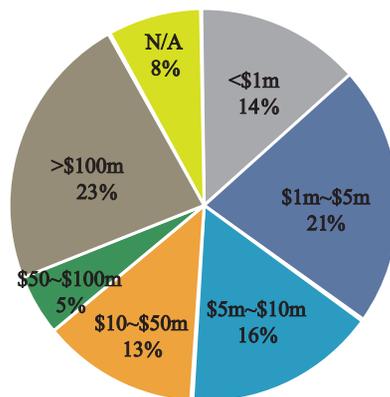


Figure 4.3: Sample profile: scale of overseas investments

Industry distribution: Table 4.2 shows the distribution of industries where companies have made investments.

Table 4.2: Sample profile: industry distribution of investments overseas

Type of Industry	Industry	Number of Companies
Primary Industry	Agriculture, forestry, fishery, and animal husbandry	33
Secondary Industry	Manufacturing	75
	Mining, new and renewable energy	54
Tertiary Industry	Information and communication technology	9
	Wholesale and retail	30
	Construction	52
	Other service industry	43

Note: 251 companies answered this question and some companies have invested in more than one industry.

Other service industries include: financial service, leasing and commercial service, as well as sports and entertainment, etc.

Table 4.3: Sample profile: companies by geography and industry

	Agriculture, forestry, fishery, and animal husbandry	Manufacturing	Mining, new and renewable energy	Information and communication technology	Wholesale and retail	Construction Industry	Other Service Industry
Europe	12	28	18	5	10	6	10
North America	3	23	18	5	6	9	12
South America	0	11	18	1	1	6	7
Oceania	2	8	17	2	2	3	9
Asia	15	49	42	5	17	37	30
Africa	1	16	25	3	4	24	11
Total Number of Companies	33	75	54	9	30	52	43

Note: Some companies have invested in multiple regions.

Years of overseas operations: The number of years of overseas operations is shown in Figure 4.4. Companies with more than ten years of experience operating overseas take up a relatively higher percentage (28%).

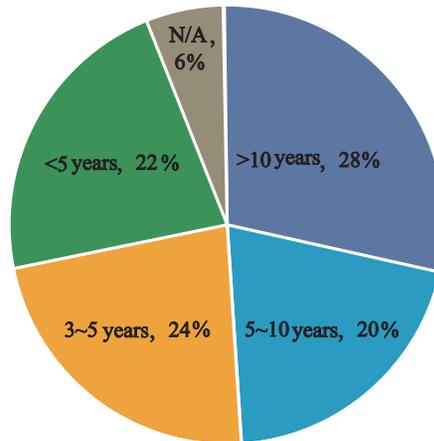


Figure 4.4: Sample profile: years of operating overseas

Types of investment and cooperation overseas: As shown by Figure 4.5, surveyed companies mainly make greenfield investments overseas (56%). 31% of the companies surveyed have completed merger and acquisition deals overseas; 24% of the companies are engaged as contractors for overseas projects; and 13% of the companies export some kind of labor service.

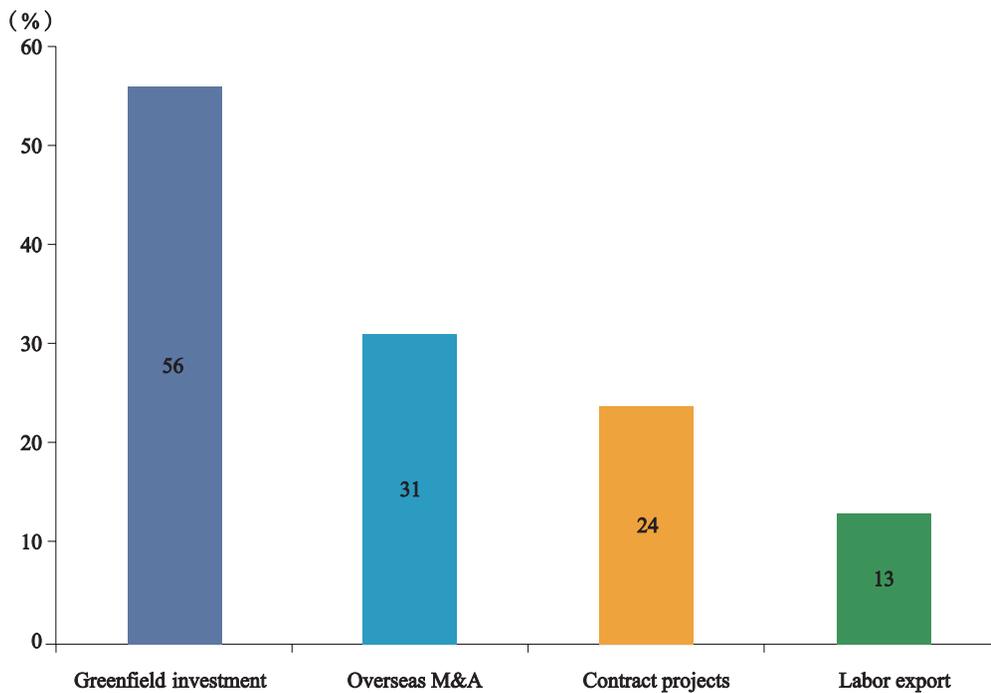


Figure 4.5: Sample profile: types of investment and cooperation overseas

## V. Corporate Governance Performance<sup>①</sup>

For all companies investing overseas, creating a sound corporate governance system is crucial for their sustainable development practice. This chapter provides an in-depth analysis of the overseas corporate governance performance of Chinese companies through the following three aspects.



Most Chinese companies with overseas operations have created corporate governance mechanisms in light of local political, economic, commercial and trade conditions. According to the survey results, among the four management mechanisms, risk management and internationalized management have been the highest priorities for companies, where 54% and 53% of the surveyed companies have established these systems respectively. However, Chinese companies still need to enhance their awareness of the importance of stakeholder communication (45%) and CSR management (35%) in their overseas corporate governance systems.

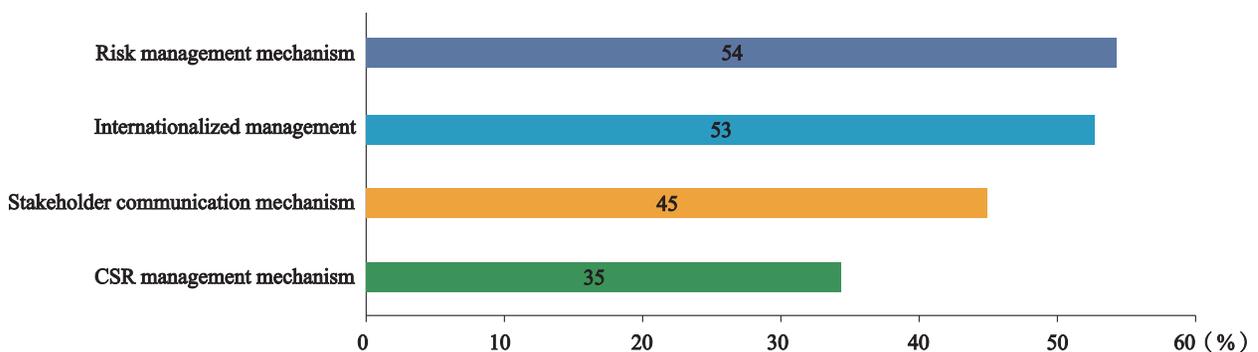


Figure 5.1: Overseas corporate governance system of Chinese companies

### 1. Risk Management

#### 1.1 Overseas risk management mechanism

Common risks confronting Chinese companies' overseas operations include political, financial and social risks. Many Chinese companies, like companies from other countries, are vulnerable to these potential risks, especially as such risks may be high in developing countries. As Figure 5.2

<sup>①</sup> Unless otherwise specified, the numbers appearing in Chapter V, VI, VII and VIII of this Report are all taken from the survey results.

indicates, most surveyed Chinese companies report that they have created a relatively comprehensive institutional framework for overseas risk management. Among them, 69% have created risk management organizational systems, and 56% have created risk management organizational systems, and 56% have established risk emergency response mechanisms. 47% have fostered a risk management culture, 46% have created a system of assessment standards, and 43% have established risk early warning systems.

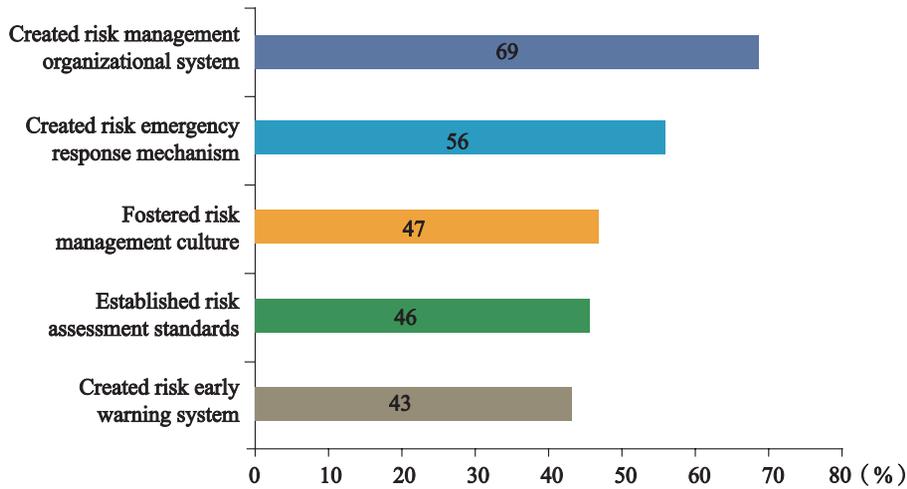


Figure 5.2: Creation of overseas risk management framework by Chinese companies

By examining the size and duration of investment, as well as different forms of ownership, the questionnaire offers an opportunity to examine whether firms are outperforming others in overseas risk management. Worth noting is that companies with overseas investment exceeding US\$100 million demonstrate the highest performance in creating institutional frameworks for risk management, while companies that have operated for longer in overseas markets also have relatively strong performance in this area. In addition, compared with private companies, a greater proportion of SOEs have made headways in all aspects relating to creating risk management systems. These findings suggest that for the foreseeable future, priority should be given to the development of risk management systems of small, medium-sized companies and private companies, and companies that have launched their global operations only recently.

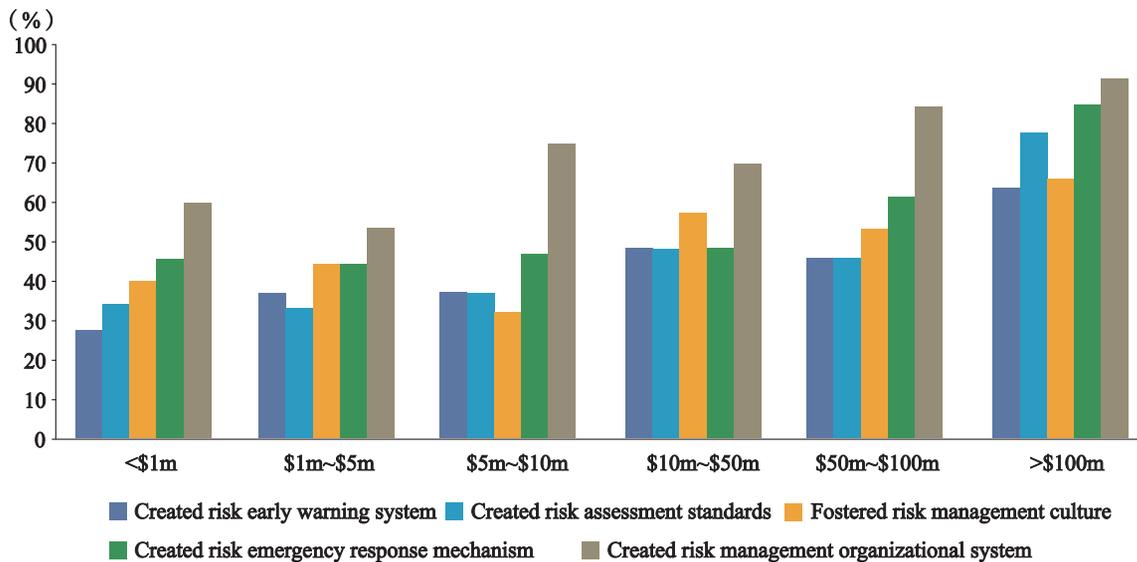


Figure 5.3: Company size vs. establishment of overseas risk management system

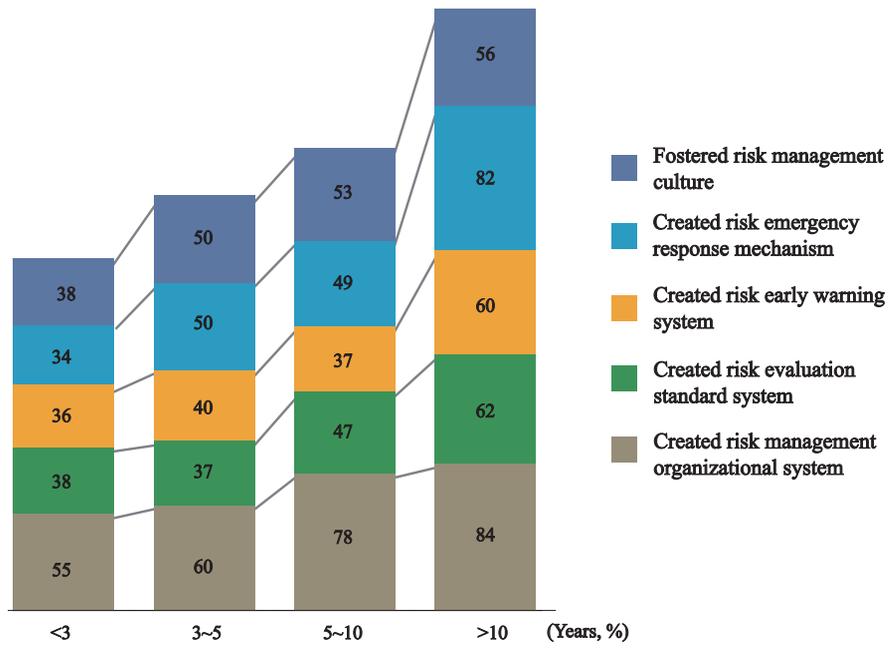


Figure 5.4: Years of overseas investment vs. creation of overseas risk management system

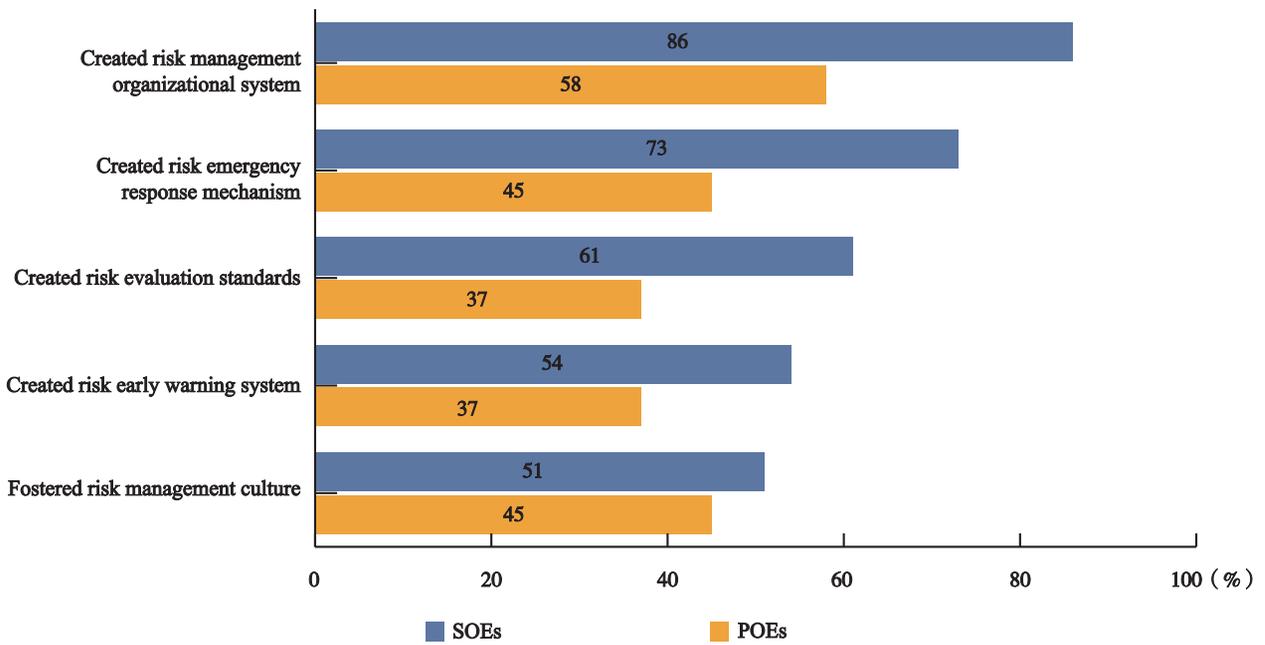


Figure 5.5: Form of ownership vs. creation of overseas risk management system

## 1.2 Major risks in overseas operations

According to our survey results, Chinese companies believe that challenges and problems indeed exist in their overseas operations, but that these challenges and problems have little impact on their business operations. Companies tend to consider that political and regulatory environments, labor issues and commodity price fluctuations in host countries are their primary concerns, with 37%, 33% and 32%



of companies respectively believing that these three issues have large or very large impacts on their operations. By comparison, corruption, environmental issues, community issues and infectious diseases in overseas markets have a relatively lower impact on corporate operations.

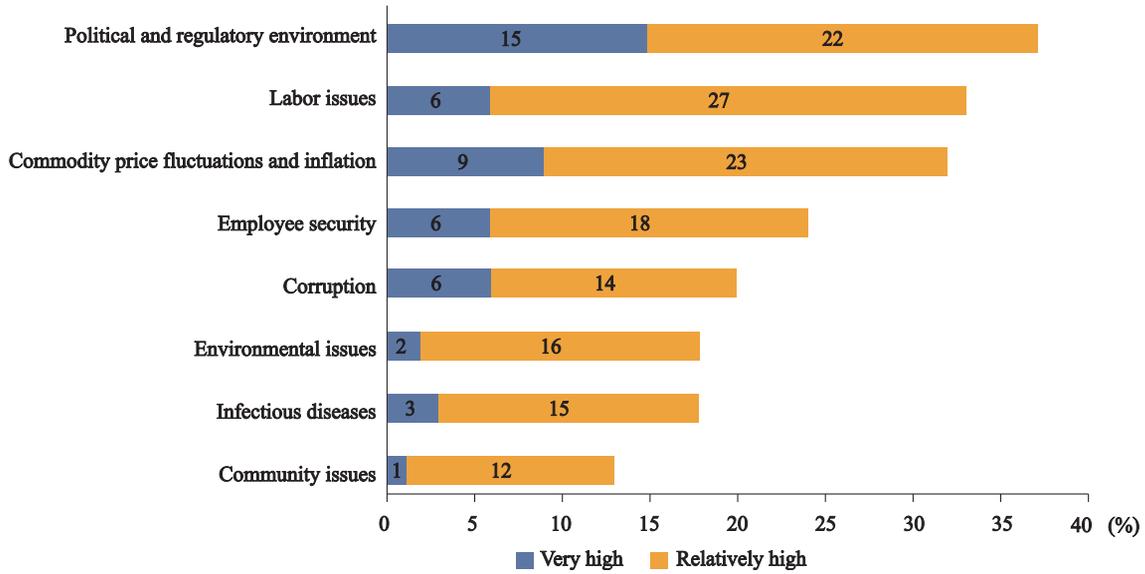


Figure 5.6: Major challenges confronting the overseas operations of Chinese companies

If the region of investment is considered, as is the case with Table 5.1, we find that companies believe different regions present different operational risks. However, political and regulatory environments and labor issues are ranked by Chinese companies in all investment regions as the two issues that present the highest operational risks. Companies investing in Asia and Europe consider that commodity price hikes or fluctuations and possible inflation are major sources of operational risk. Environmental issues are a major component of operational risk in North America and Oceania. Chinese companies operating in Africa and South America identify employee security as the biggest operational risk aside from political and regulatory environments and labor issues.

Table 5.1: Major risks confronting Chinese companies' overseas operations (by region)

Region	Top three operational risks
Europe	Labor issues, political and regulatory environment, commodity prices
South America	Labor issues, political and regulatory environment, employee security
Oceania	Political and regulatory environment, labor issues, environmental issues
North America	Political and regulatory environment, labor issues, environmental issues
Asia	Political and regulatory environment, labor issues, commodity prices
Africa	Political and regulatory environment, labor issues, employee security

### 1.3 Overseas risk prevention measures

All companies in our survey have established risk early warning and tracking mechanisms for their



overseas operations; nevertheless, only 12% of these companies have created a special risk prevention fund. In addition, it is common practice for companies to conduct pre-job training for expatriates in such areas as local language, culture, safety and anti-corruption, hold regular exchanges with stakeholders, and create dedicated risk prevention institutions and personnel support systems. It should also be noted that Chinese companies do not appear to realize the importance of third-party environmental and social impact assessments, with only 26% of the surveyed companies indicating that they have conducted third-party social and environmental impact assessments.

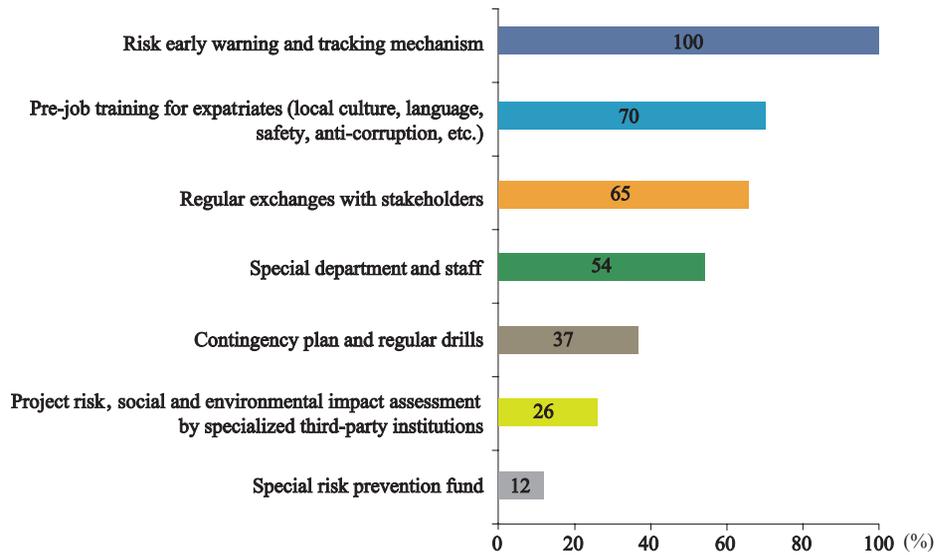


Figure 5.7: Risk prevention measures adopted by companies in the past three years

When examining how long these Chinese companies have been making overseas investments in tandem with their risk preparedness, we find that companies that have been making overseas investments for longer are more inclined to adopt a more comprehensive risk prevention regime that covers all measures. Geographically speaking, corporate subsidiaries in South America and Oceania are significantly more inclined to formulate corporate rules on risk prevention.

In addition, the majority of the companies across different industries conduct pre-job training for their expatriates as an important risk prevention measure. It should be noted that given the distinctive characteristics and risks of different industries, the risk prevention strategies adopted by each industry have salient emphases and gaps. Companies in mining, new and renewable energy industry and other service industries are keener to formulate risk prevention rules, and 70% and 67% of the companies in these two industries respectively, have special risk prevention departments and staff support systems. Percentage-wise, more companies in the construction sector are setting up special risk prevention funds than companies in other industries.

## 2. CSR Management of Overseas Companies

### 2.1 CSR awareness

As shown in Figure 5.8, most companies have knowledge of the concept of corporate social responsibilities (CSR) and state that they recognize the importance of CSR to corporate development and competitiveness. As many as 85% of the surveyed companies believe that the fulfilment of corporate social responsibilities is mandatory for corporate growth, while 83% of the companies recognize the role of CSR in corporate development and competitiveness. However, 4% of the surveyed companies believe that the objective of corporate development is to maximize profit and is not strongly tied to CSR and 2% of the companies indicate that they may forego their social responsibilities when it is needed to pursue their profit. These figures suggest that an increasing number of Chinese companies have begun to recognize the value of CSR and consider turning it into an engine that drives future actions. That said, although some Chinese companies have already showcased some best practices with regard to CSR, parts of them have integrated sustainability into their core corporate strategies. Indeed, among some Chinese companies, there exists a common conception that CSR is equivalent to charity.

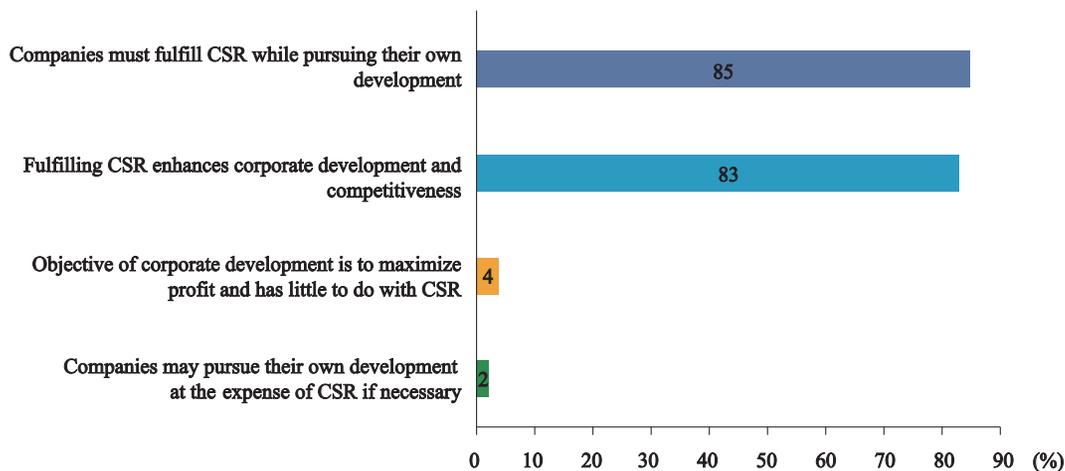


Figure 5.8: Basic understanding of “corporate social responsibility”

Figure 5.9 shows companies’ knowledge of the various concepts relating to sustainable development. Generally, companies have a better understanding of corporate citizenship, stakeholder theory and the “triple bottom line” (economic, environmental and social) than relevant international norms and guidelines. Our survey shows that the following five items are the most familiar to Chinese companies: corporate citizenship, stakeholder theory, the triple bottom line, the United Nations Millennium Development Goals (MDGs)/Sustainable Development Goals (SDGs), and ISO26000.

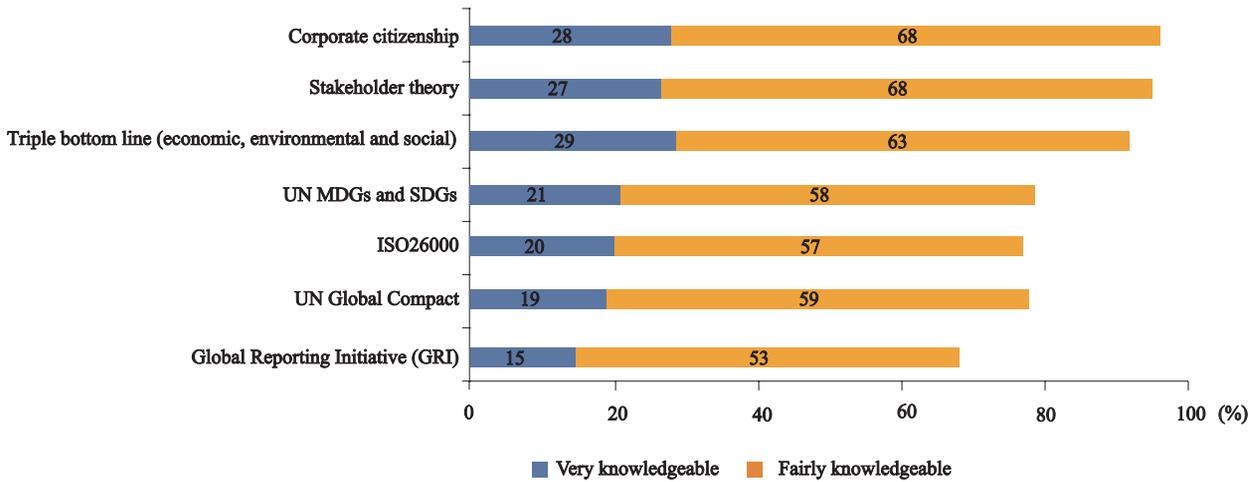


Figure 5.9: Companies' level of knowledge on concepts of sustainable development

## 2.2 Motivation for fulfilling corporate social responsibilities

As indicated by Figure 5.10, the sustainable overseas development of Chinese companies is primarily motivated by internal factors or the government, rather than the expectations of local communities and stakeholders: it might be expected that CSR performance by Chinese companies could continue to improve if more consideration of the expectations is given to stakeholders.

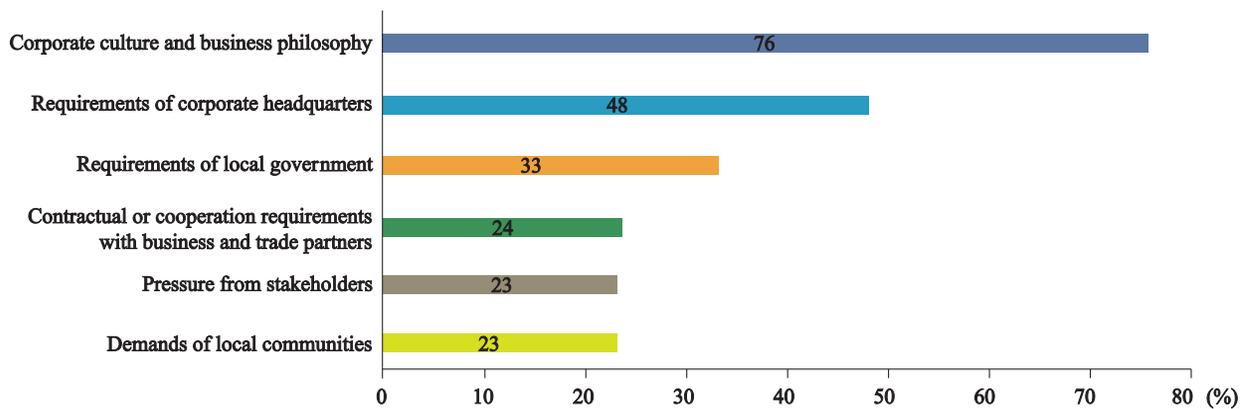


Figure 5.10: Fundamental motivations for CSR performance by overseas subsidiaries

As far as the fulfillment of corporate social responsibilities is concerned, it should be noted that due to the potential impacts on host countries' communities and environments, companies in the mining, new and renewable energy sector appear to be fundamentally driven more by the requirements of host countries' governments and communities on corporate modes of operation, than by corporate headquarter requirements or corporate culture and business philosophy concerns. By contrast, more than 50% of companies in the ICT industry indicate that their CSR performance is driven by the pressure or expectations of stakeholders, including their employees, consumers, the media and the public.



### 2.3 Overseas CSR management system

Overseas CSR management systems play a vital role in converting CSR awareness into practice. To some extent, a complete management system determines the success of a company's CSR efforts.

As indicated in Figure 5.11, around 90% of the surveyed companies have established or plan to establish overseas CSR management systems. 41% of the companies have yet to establish a CSR management system specifically for their overseas business operations but are planning to. Approximately 33% of the companies have already established well-functioning CSR management systems and set up dedicated departments or staff positions. These companies could be seen as model companies in CSR and share their best practices with less sophisticated companies. Only less than 10% of the companies have not created a CSR management system and have no plans to do so.

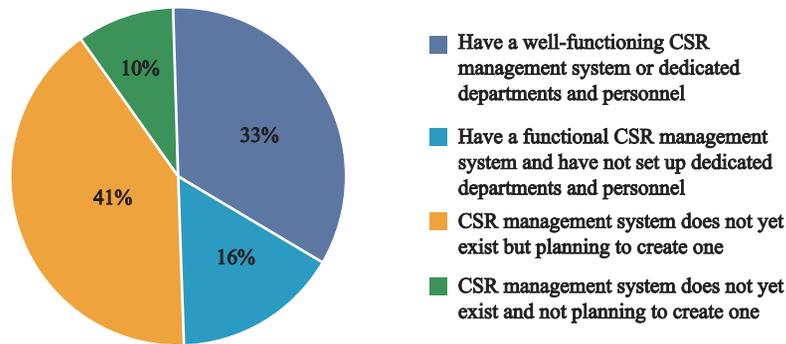


Figure 5.11: Creation of CSR management system by companies for their overseas operations

By examining how long these companies have been making overseas investment and their ownership types, as is the case with risk management systems we find that the majority of companies that have invested for more than ten years have created an overseas CSR management system: 62% of these companies have such a system in place; 46% even have a well-functioning system or have created dedicated CSR departments and job functions. As high as 69% of the companies investing for less than three years overseas have yet to establish CSR management system. About 58% of the companies in this category expressed their expectation to do so but have yet to take any action. Again, as with the case of risk management systems, the percentage of SOEs with overseas CSR management system exceeds that of private companies: 59% of SOEs have such system, 16 percentage points higher than POEs.

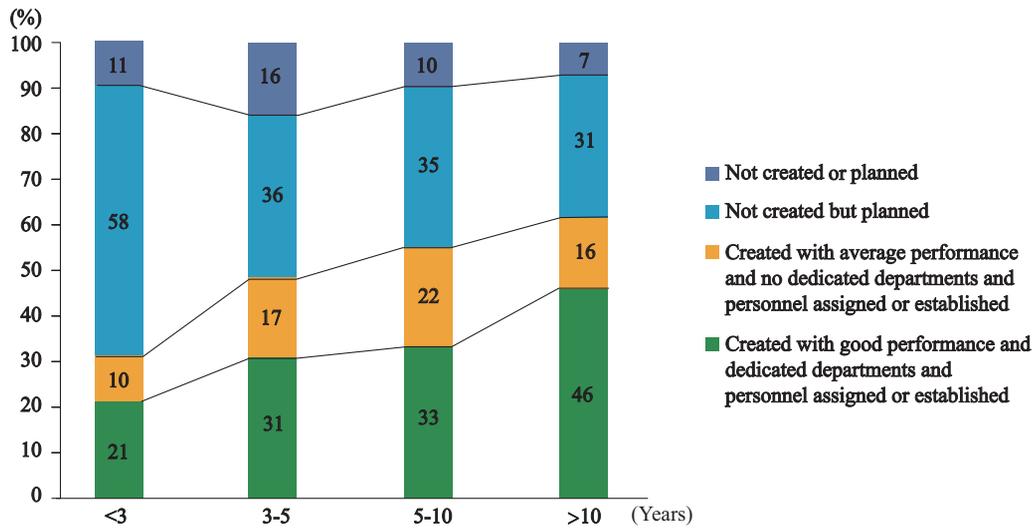


Figure 5.12: Length of overseas investment and creation of CSR management systems for overseas operations

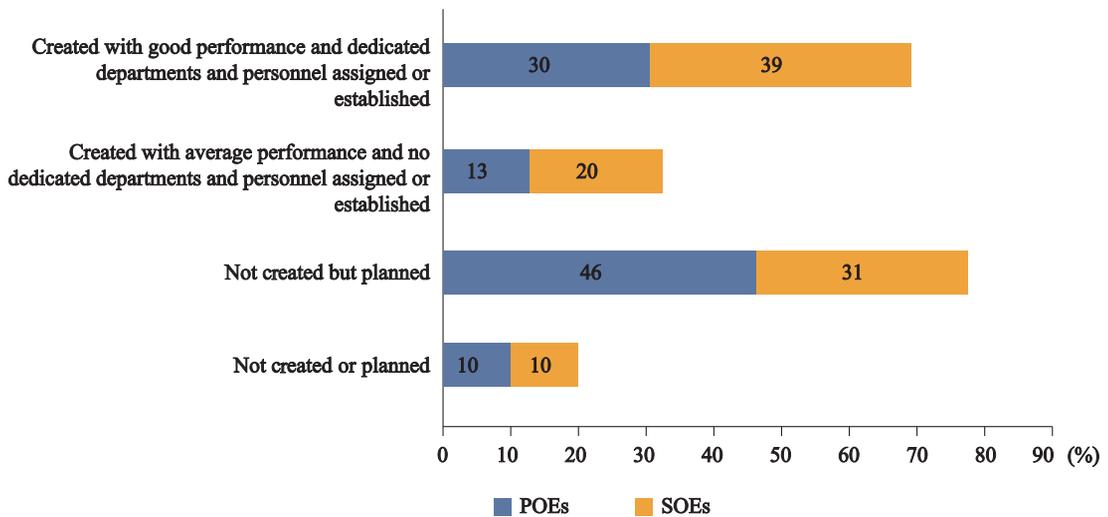


Figure 5.13: Type of enterprise and creation of CSR management systems for overseas operations

## 2.4 Overseas CSR reports publication

As shown in Figure 5.14, currently only around 10% of surveyed companies release CSR reports related to their overseas operations on an annual or regular basis. Many companies (40%) disclose partial information about their overseas business operations in their corporate annual reports while 50% of the companies do not release or disclose such information in any form. Yet, CSR reports can be an important communication channel to stakeholders and should command greater attention from Chinese companies. There is a real opportunity for Chinese companies to use CSR reports as a new tool for establishing a positive corporate image and mitigating risks.

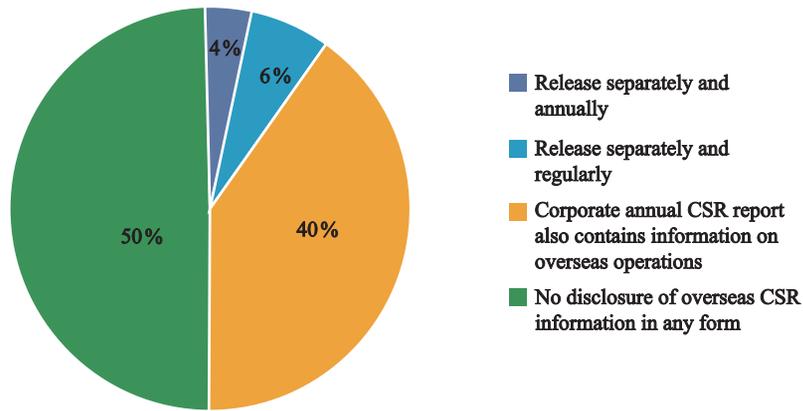


Figure 5.14: Release of overseas CSR reports by Chinese companies

### 2.5 Level of overseas CSR performance

Overseas Chinese companies believe that their efforts on CSR are similar to or perform better than their counterparts in host countries. Out of the 238 responses completed on this question, 10% of companies say they have a leading role in CSR activities in host countries and are exemplary in this aspect; 36% of companies say they have relatively good CSR performance and even some best practices; 53% of companies are at an average level without either CSR best practices or blunders; and very few companies (less than 1%) have poor CSR performance or CSR blunders.



Figure 5.15: Level of CSR performance by Chinese companies in host countries

Further analysis of the data indicates that the level of CSR performance by companies in host countries increases significantly in larger companies and companies that have been operating overseas for longer.

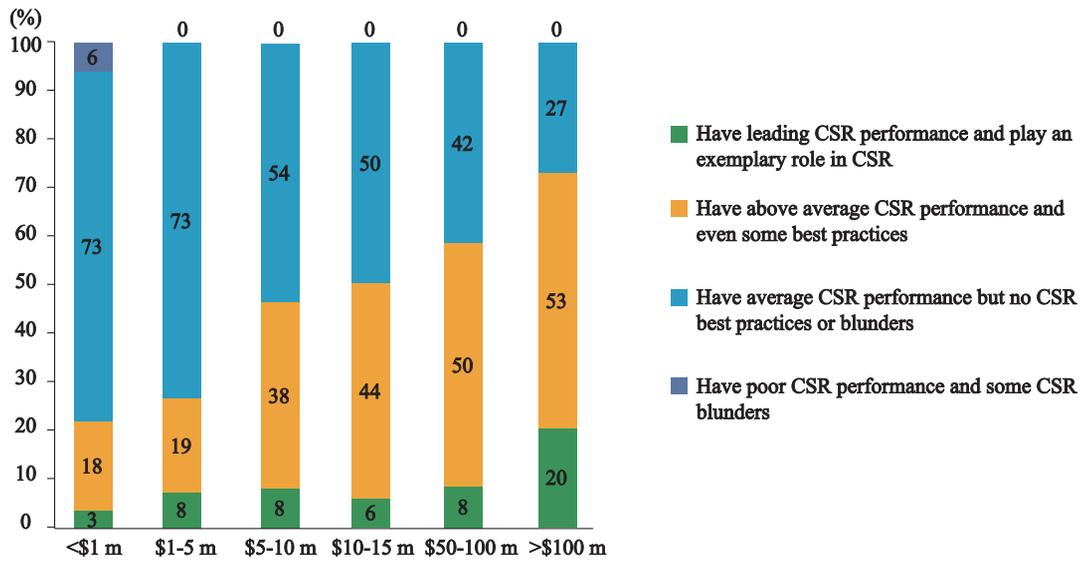


Figure 5.16: CSR performance in host countries (by investment size)

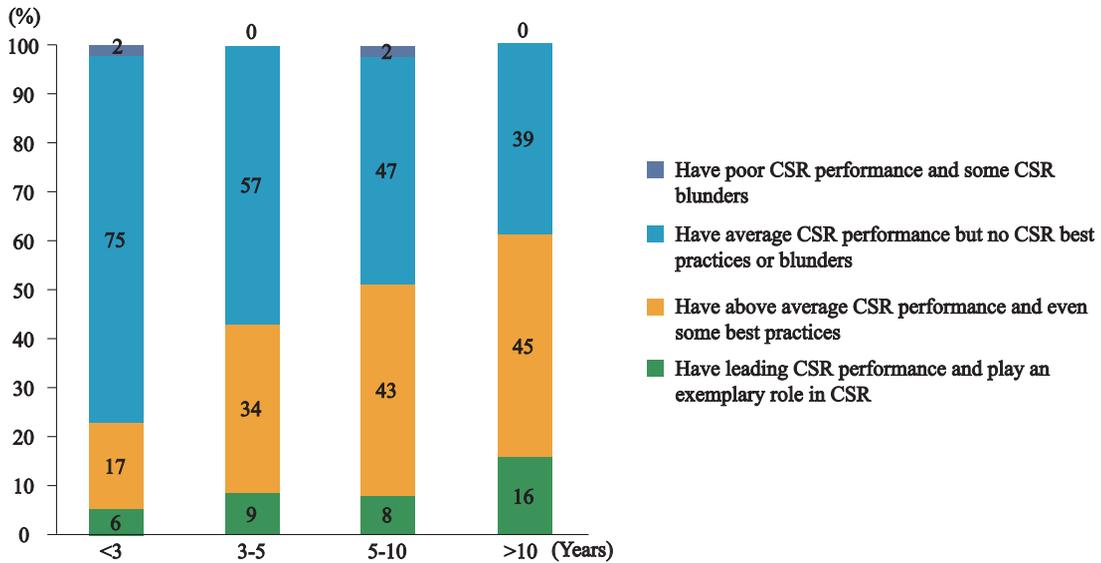


Figure 5.17: CSR performance in host countries (by length of investment)

## 2.6 Barriers to overseas CSR performance

As indicated in Figure 5.18, major barriers to overseas CSR performance include the lack of professional organization and talent, the lack of theoretical and practical support, and the absence of incentives and penalties for responsible persons. As mentioned earlier, Chinese companies are still learning about the meaning of CSR and testing the waters. Furthermore, our investigation also reveals that some companies believe CSR activities would place certain financial burdens on them and they simply do not have the resources to fund these activities when they are facing financial challenges.

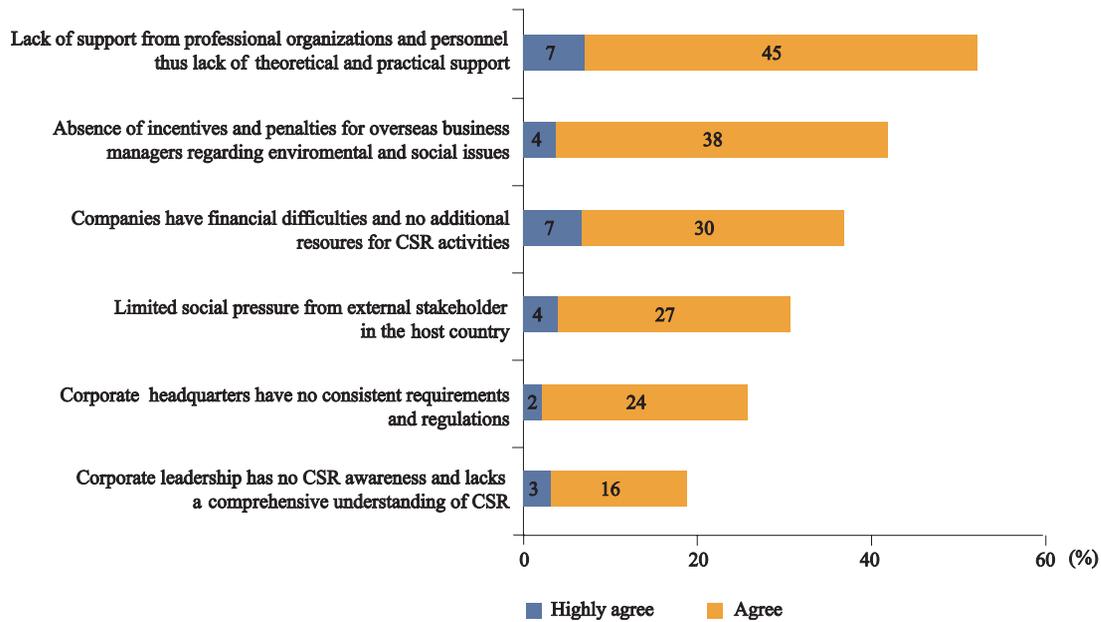


Figure 5.18: Barriers to CSR performance from Chinese companies

### 3. Overseas Stakeholders

#### 3.1 Identification of stakeholders

The level of importance attached by Chinese companies to any stakeholder is mainly determined by the stakeholders’ relevance to their core businesses. Our survey indicates that the top five stakeholders in terms of importance are: customers, shareholders (investors), host country government, local permanent institutions of the Chinese government, and suppliers. The least important five stakeholders are local communities, industry associations, the news media, international organizations (such as local bodies of the United Nations) and non-government organizations (NGOs).

Regarding the mechanism of interaction between Chinese companies and stakeholders, our survey indicates that 55% of the companies have created mechanisms for overseas stakeholders engagement, 39% of the companies currently have well-functioning mechanisms and maintain regular contact with stakeholders while 16% of the companies have average performance in this regard and only communicate with stakeholders when problems arise. However, at present, 45% of the companies have yet to create any mechanism through which stakeholders in host countries can get involved – 36% are planning to do so while 9% have no such plans.



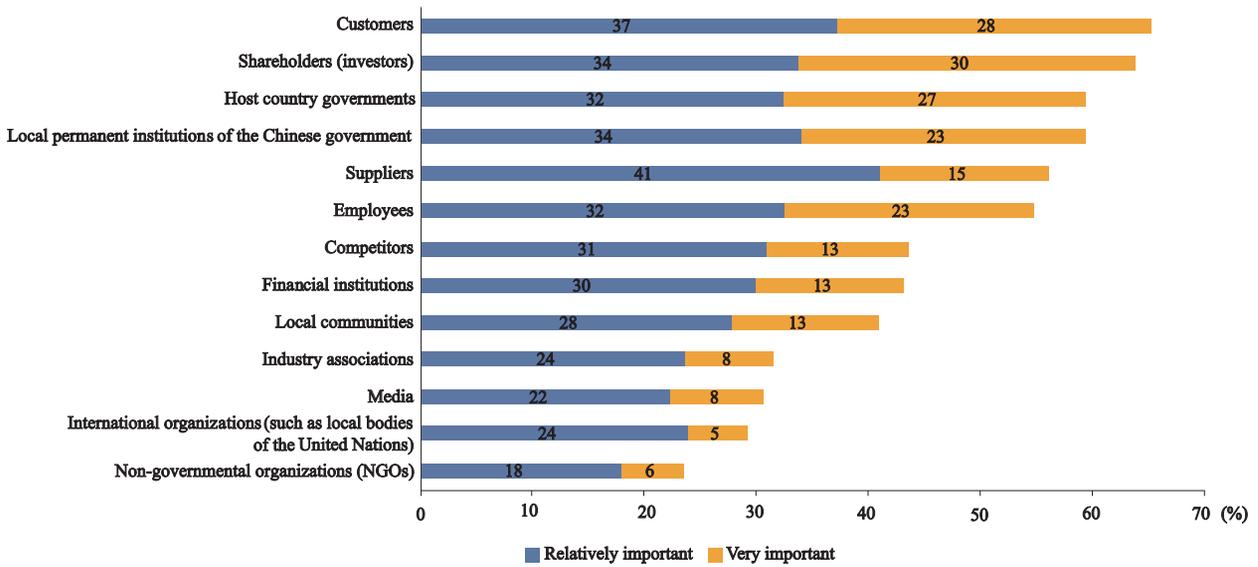


Figure 5.19: Chinese companies' understanding of the importance of stakeholders in host countries

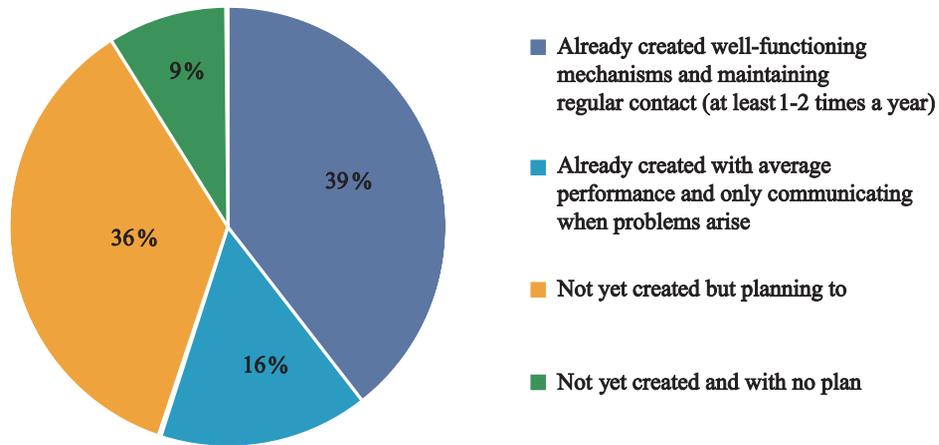


Figure 5.20: Creation of mechanisms to ensure communication with stakeholders in host countries

It will be important for Chinese companies to improve these mechanisms in the future. Huawei Technologies provides an excellent example. The company has created a specialized sustainable development management system and has attached great importance to stakeholder interaction, with results described in more detail in the box below.

**Case Study 1: Creation of corporate sustainable development management system and stakeholder engagement process by Huawei Technologies Co., Ltd.**

Headquartered in Shenzhen city of China, Huawei Technologies Co., Ltd. (Huawei) is a Fortune Global 500 company. Huawei's telecoms network equipment, IT equipment and solutions and smart terminal devices have been used in more than 170 countries and regions. Huawei believes that proactive communication and interaction with customers, full understanding of customer demands



and expectations, and incorporation of customer suggestions into the corporate strategy are key to corporate sustainable development. Based on this philosophy, Huawei attaches importance to customer relations and adheres to a customer-oriented approach to enhance corporate competitiveness and profitability.

**• Creating a dedicated management system for corporate sustainable development (CSD)**

In 2010, Huawei established a Corporate Sustainable Development Committee, consisting of more than 20 employees from R&D, manufacturing, procurement, human resources and administration, and other departments. As a specialized organization tasked with managing Huawei’s sustainable development, the CSD Committee are mainly responsible for coordinating the operations of the CSD management system, planning and developing the sustainability strategy, and overseeing its effective implementation during business operations, with a view to steering the company toward sustainability.

In 2013, Huawei created a sustainability management system based on ISO26000. Since then, Huawei has formulated and released a series of management methodologies and tools, including policies, procedures, and baselines, to assist the company in the systematic planning, implementation, monitoring and improvement of corporate sustainability. By 2014, Huawei’s CSD management processes had been implemented in all its business departments. In 2015, Huawei plans to optimize these processes based on the actual results of operations to better align them with its businesses and create more business value. Meanwhile, Huawei has developed a tool for evaluating the sophistication of its CSD management system from 11 dimensions including strategy, risk management, indicator management, organization, and emergency management, etc. This tool enables Huawei to gain a full understanding of the level of sophistication of its various business modules, identify areas for improvement, and drive continuous business improvement.

**• Attaching importance to communication and interaction with stakeholders**

Huawei takes communication and interaction with stakeholders as a top priority in its sustainability activities. By adopting the Stakeholder Engagement Process, Huawei has officially institutionalized stakeholder engagement and integrated it into Huawei’s operations to maximize its value. As shown in the following table, Huawei’s systematic management and efforts with regard to stakeholder engagement provide a practical framework to other Chinese companies in managing their domestic and overseas operations.

**Table 5.2: Huawei’s primary means of stakeholder engagement**

Stakeholder	Engagement Approach
Customers/ Consumers	<ul style="list-style-type: none"> <li>• Customer satisfaction survey</li> <li>• Face-to-face discussion with customers over sustainability issues</li> <li>• Industry exhibitions and forums</li> <li>• Consumer surveys</li> <li>• Huawei Club</li> </ul>

Table 5.2 (continued): Huawei's primary means of stakeholder engagement

Stakeholder	Engagement Approach
Employees	<ul style="list-style-type: none"> <li>• Communication with employee representatives</li> <li>• Employee well-being activities</li> <li>• Organizational working-atmosphere surveys</li> <li>• Communication with the management and creation of employee suggestion mailbox</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Supplier sustainability conference</li> <li>• Supplier training and workshops</li> <li>• Supplier audits and appraisals</li> </ul>
Governments	<ul style="list-style-type: none"> <li>• Cooperation on sustainability initiatives</li> <li>• Symposiums</li> <li>• Policy communication meetings</li> </ul>
Industry/Standards associations	<ul style="list-style-type: none"> <li>• Industry forums and association activities</li> <li>• Standards workshops</li> <li>• Publication of research results</li> </ul>
NGOs	<ul style="list-style-type: none"> <li>• Sustainability conferences</li> <li>• Joint cooperation projects</li> <li>• Workshops</li> </ul>
Media	<ul style="list-style-type: none"> <li>• Sustainability conferences</li> <li>• Media interviews</li> </ul>

Source: Huawei 2014 Sustainability Report

Two key aspects of Huawei's stakeholder engagement activities are:

**(1) Ensure effective communication with stakeholders**

Companies can systematically identify and manage corporate sustainability risks through efficient communication with stakeholders. Companies can then apply stakeholders' suggestions to the day-to-day management of corporate activities to drive continuous improvement and achieve sustainability targets.

Huawei has set up representative offices in countries it conducts businesses in and employs a wide range of approaches (see Table 5.2) to actively create and maintain cooperative ties with local business partners for generating mutual benefits. Huawei's primary communication channels include roundtable meetings, annual conferences, commissioning third parties to conduct satisfaction surveys, holding dialogues with customers and organizing regular visits, etc.

**(2) Value the feedback and suggestions from stakeholders**

Huawei is committed to timely resolving every feedback from its customers and reflecting customer requirements in its product development and design. Specific measures include:

a. In relation to customers' technical requirements: Huawei has an end-to-end feedback management system supported by its requirement management process and central IT platform. The system helps track customer requirements from proposal to inclusion into R&D iterations to market launch. Huawei has also developed a system for visualizing the implementation of technical requirements, which enables its representative offices and system departments to lookup the company in latest progress on meeting the technical requirements proposed by customers for a particular product.

b. In relation to customers' problems and complaints: Huawei has created a hierarchical

management system consisting of representative offices, regional offices and agencies, and has established dedicated customer satisfaction management teams at various organizational levels to expedite the closure of problems and complaints as well as to spearhead the analysis and correction of deep-seated common problems and management system problems. Huawei has also created a special working group at the corporate level with easier access to company resources to address major customer complaints.

• **Involving in sustainability organizations and initiatives**

Huawei actively collaborates with its partners, customers and other stakeholders to improve sustainability across the ICT industry. As a member of the UN Broadband Committee for Digital Development, the UN Global Compact, Global e-Sustainability Initiative (GeSI), QuEST Forum, the Business for Social Responsibility (BSR), CSR Europe, and other global and regional organizations, Huawei continues to share industry best practices, explores areas for collaboration, and improve sustainable development.

3.2 Sustainability requirements from stakeholders

As Figure 5.21 shows, Chinese companies believe that the requirements for sustainable development are mainly raised by shareholders (investors), customers, suppliers, host country governments, local permanent institutions of the Chinese government, and company employees. At the other end of the scale, companies believe NGOs, news media and financial institutions do not place as much emphasis on sustainability.

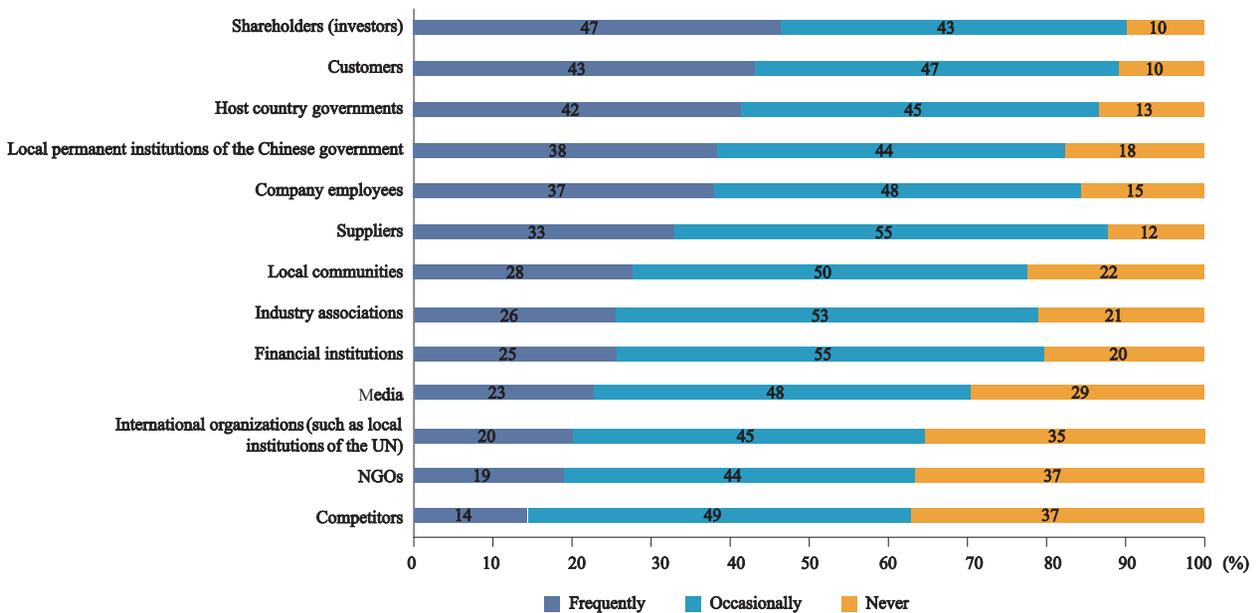
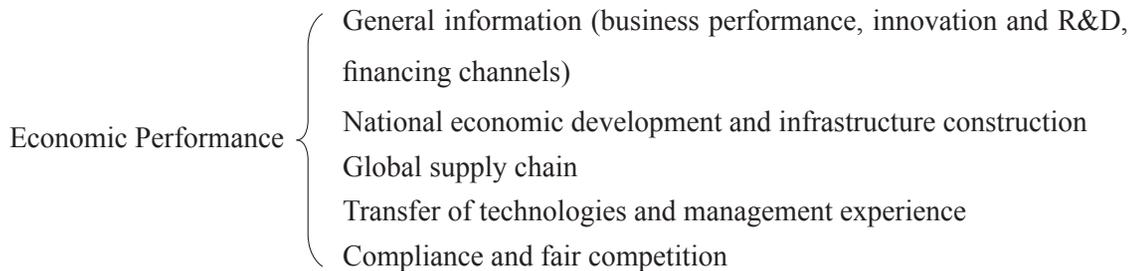


Figure 5.21: Stakeholders that have set sustainability requirements to Chinese companies

## VI. Economic Performance

Economic performance is fundamental to corporate sustainability. Companies' pursuit of profit should come in hand with stronger contributions to society, protection of the environment, and achievement of sustainable development. Although driven by a desire to make profits, Chinese companies have also been making positive contributions to host countries' economic development, employment growth, industrial upgrading, and infrastructure construction.

Grounded on survey analysis and case studies, this chapter examines Chinese companies' economic performance in host countries from the following angles.



### 1. General Information

#### 1.1 Business performance

Our survey shows that Chinese companies report their overseas business performance as generally very positive, with over half of the companies making a profit, 24% of them breaking even and the remaining 24% in the red for the time being (see Figure 6.1).

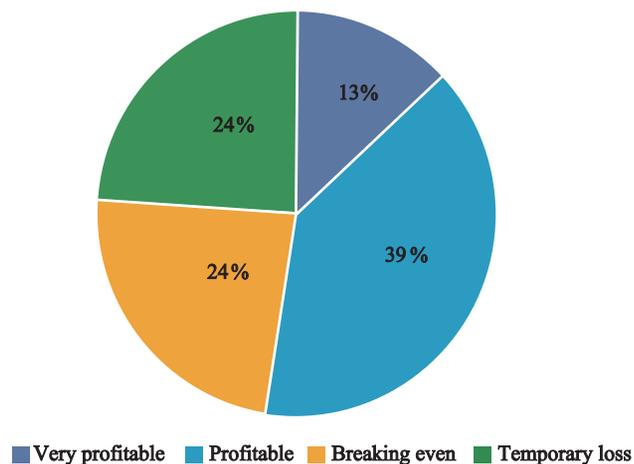


Figure 6.1: Profitability of Chinese companies' overseas projects

### 1.2 Innovation and R&D

Leveraging their years of experience in international cooperation and the steady growth of the Chinese economy, China’s globalized companies have made big improvements in terms of the capacity of innovation and independent R&D. Proactive activities on innovation and R&D in host countries can make important contributions to host countries’ economic growth, especially its quality. Although many of the firm answered the survey are from sectors not necessarily associated with innovation and R&D, nevetheless, the questionnaire shows that nearly 70% of the respondents believe that they have leading or relatively high level of innovation and R&D capabilities in the host countries (See Figure 6.2).

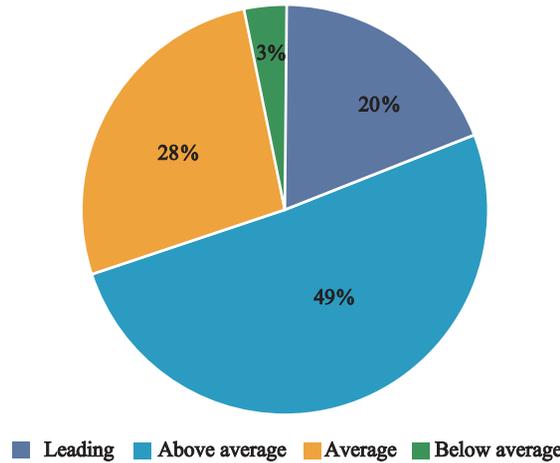


Figure 6.2: Innovation and R&D capabilities of Chinese globalized companies

### 1.3 Financing channels

As shown in Figure 6.3, out of the companies that work closely with financial institutions, 57% are financed by domestic financial institutions such as Export-Import Bank of China and China Development Bank, while only 25% are financed by overseas financial institutions such as the World Bank and African Development Bank. This implies that Chinese companies have relatively narrow financing channels despite the large capital demands of their overseas investment and cooperation.

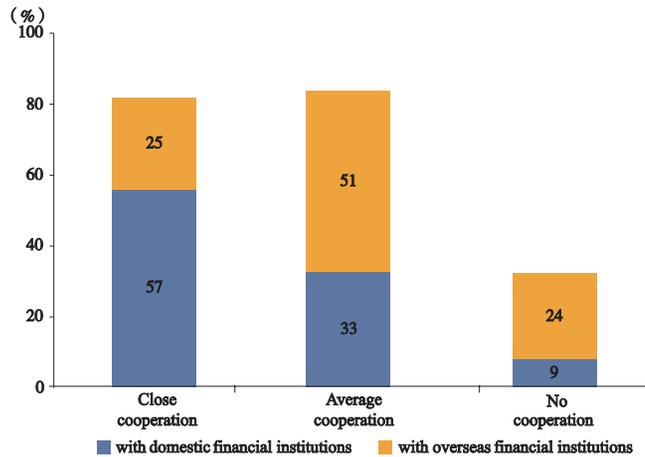


Figure 6.3: Level of cooperation between Chinese globalized companies and domestic and overseas financial institutions

## 2. Degree of Integration with Host Countries' Development

As shown by the Figure 6.4 below, nearly 90% of China's globalized companies state that they attach great importance to understand their host countries' national development strategies, policies and plans, with 40% even incorporating those elements into their own development strategy and operations. The data show that the majority of globalized companies certainly aim to play an active role in the economic and social development of the host countries.

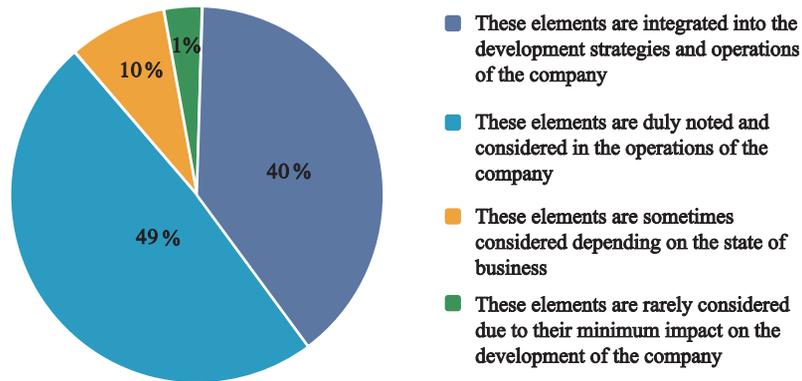


Figure 6.4: Companies' position on aligning with host countries' national development strategies, policies and plans

The following are detailed analyses of China International Telecommunication Construction Corporation fiber optic project in Tanzania and CITIC Construction Co., Ltd building the KK city in Angola, which are good examples of how Chinese companies contribute to the development need of developing countries.

### Case Study 2: China International Telecommunication Construction Corporation help Tanzania become an IT and communication hub

CITCC is a large and full-service telecommunication construction company. It ranks first in China's telecommunication construction industry in terms of size, construction capability and technology usage. Since its entry into the African market in 2005, CITCC has completed several fiber optic networks projects, in countries such as Ethiopia, Democratic Republic of Congo, Tanzania and Mauritius.

Based on UN statistics, Tanzania is one of the least developed countries in the world with half of its 44.9 million population living below the poverty line. Its outdated infrastructure severely impedes its economic development. Consequently, Tanzania has been trying to steer foreign investment into infrastructure projects on public road, electricity, bridge, port and telecommunications. Tanzania was particularly noted for its many independent domestic telecommunication operators and lack of a national broadband network prior to 2009. In response, the Tanzanian Ministry of Communication, Science and Technology led an effort to remedy the situation by commissioning the China International Telecommunication Construction Corporation (CITCC) to build a national ICT fiber optic backbone

network, with the aim of improving domestic connectivity and productivity.

The construction of Tanzania's fiber optic network, started in 2009. The construction project was divided into five phases, with Phase I and Phase II being put into operation in August 2010 and June 2012 respectively, and Stage I of Phase III in November 2014. The aggregate contract value of the (now completed) first two phases of the project was \$170 million. A total of 7,560 kilometers of fiber optic cable was laid, connecting 24 provinces of Tanzania and providing cross-border services to neighboring countries including Burundi, Rwanda, Kenya and Uganda.

• **Lowering local communication costs**

Makame Mbarawa, Minister of Communication, Science and Technology of Tanzania, remarked in November 2014 that since the first two phases of the project went into operation, the communication cost in Tanzania have reduced significantly, with telephone and Internet costs cut by 57% and 75% respectively. The availability and lower cost of the Internet has prompted an explosive growth of users: Internet users in Tanzania increased from 3.4 million in 2008 to 9.6 million in 2014, and mobile phone users increased from 2.96 million in 2005 to 28.3 million in 2014. Minister Mbarawa expect the number of Internet users to reach 13 million by December 2015, and 80% of the adults in the country to have access to mobile financial services by that time.

• **Spreading the use of ICTs**

Successful implementation of the fiber optic project and decreasing Internet costs have enabled Tanzanians to enjoy sustainable electronic services such as e-banking, e-money, e-commerce, and e-health. For instance, Tanzania's urban residents have begun to use mobile financial services including e-money and mobile banking to make payments or transfer money. With respect to e-health, Tanzanian Telecommunications Company, Ltd. has partnered with Kilimanjaro Christian Medical Center and Bugando Hospital to provide telemedicine services through the national network, allowing patients' voice and images to be sent to experts in other parts of the world and freeing patients from traveling long distances. Last but not least, the growing popularity of online courses enables more students to access teaching materials, thereby improving the efficiency of the educational system.

• **Facilitating technology spillover and inter-regional communication**

Currently, Tanzania's national fiber optic network has been extended to nine hubs bordering Kenya, Uganda, Rwanda, Burundi, Malawi and Zambia, connecting these largely landlocked countries with the international landing point for fiber optic cables in Dar es Salaam. Telecommunication service providers in Rwanda, Burundi, Malawi and Zambia have successfully connected to the network, with those in Kenya and Uganda expected to follow suit shortly. ICTs have not only accelerated information transmission and exchange within Tanzania and across East Africa, but also have brought convenience to residents' life and work. In addition, the building of the fiber optic network has sharpened the competitive edge of Tanzania's domestic ICT industry and may well shape Tanzania into an IT and communication hub of East Africa in future.

### Case Study 3: CITIC Construction Co., Ltd building the KK City in Angola

After a painful 27 years civil war, Angola is now in a new era of national restoration with considerable reconstruction work. During the war, large numbers of migrants were overcrowding into the capital city, Luanda, resulted in a large population of 5 million. In 2002, after regaining peace, Angola set out to restore the city and relocate the population by developing new cities.

As a sub-company of CITIC Group, CITIC Construction Co., Ltd (CITIC Construction) is responsible for investment and development of overseas projects. It is operating in a dozen of countries, with 40 billion-dollar worth of contracts in hand and 2.6 billion-dollar annual revenues. In 2005, CITIC Construction won the bid for a 20,000-unit social housing project in Kilamba-Kiax, Luanda (the KK Project).

The new city of the KK Project (the KK City) is located near the November Eleventh National Stadium, about 20 kilometers from the center of Luanda. It is planned to cover a 54-square kilometer area with 80,000 residences. The construction is divided into three phases, of which the second has already started. The 9-square-kilometer first phase began in 2008 and the results were 710 houses, 20,000 apartments, 24 kindergartens, 9 primary schools, 8 middle schools, 1 hospital, 4 clinics, 12 healthcare centers, other public institutions and infrastructure including the power grid, drainage, transportation and landscaping. The total contracted amount involved in this phase surpassed USD 3.5 billion. This is the largest housing project completed by a Chinese enterprise in Africa. In October 2012, the first phase was handed over to Sonangol, Angola's national oil company, and was well-received in the market. By the end of 2014, the occupancy had reached 90%. As planned, the second phase would include hospitals, shopping malls and large cultural centers to meet the needs of citizens. The assistant to Mayor of the KK City talked about the CITIC Construction's work, "We are very content with the planning and running of the city. CITIC Construction ensured both speed and quality. As Angola is trying to carry out many more similar projects, I believe that CITIC Construction, and other Chinese enterprises alike, will help us with more cities."

With "people-oriented and sustainable development" as a basic principle, the master design of the KK City borrowed strength from China's standards and experience and also made adjustments to suit geographic, cultural and climatic features of Angola. To make it more resident-friendly, lattice bricks were used in the walls of staircases to improve ventilation, lighting as well as aesthetics in the hot environment. To cope with the saturated yielding base, Chinese experts were invited to conduct on-site investigation and, as suggested, methods including changing, filling and compaction were adopted.

Besides restoring Angola, CITIC Construction's KK Project has also boosted the local employment and production of building materials. So far, 55,000 Angolan workers have been engaged in the KK Project. The first phase needed 50,000 tonnes of steel, 1.2 million tonnes of cement, 2.2 million tonnes of sand and 2.3 million tonnes of rocks. The company made investments in Angola to build 14 factories to produce sand, rocks, bricks, al-alloy windows and doors and other materials, driving local development of the building material industry.

### 3. Localized Procurement

Foreign investments, if aligned with host country economies, can help promote a country’s industrial transformation and enhance companies’ competitiveness in international markets, achieving a “win-win” result for all parties. Therefore, by localizing their businesses, Chinese companies stand to benefit from a more competitive global supply chain, while companies in the host country can in turn raise product standards, expand their market and generate more profits.

The survey shows that most of Chinese companies are willing to give priority to host countries’ products during procurement. Under the same conditions, 72% of companies state that they prefer to strengthen their local operations and purchase products and services from where their projects are located.

However, during the actual procurement process for cross-border businesses, the companies surveyed still primarily source their products and services from within China. As shown in Figure 6.5, 57% of the Chinese companies purchase through their domestic branches, 38% from the host country, and 9% from a third country. The Chinese companies surveyed indicate that cultural and language differences and unfamiliarity with the overseas environment pose risks for local procurement. Other barriers include the lack of experience in trans-national operation and management, prohibitive expenses involved in building an overseas marketing network, fund shortages and financing difficulties, and inadequate experience in managing product quality overseas. Accordingly, Chinese companies complain that host countries often do not have the suppliers for the products they need and whatever supply chain they might possess is often underdeveloped. Even if the host countries have the suppliers, the price or quality of their products regularly cannot meet their requirements.

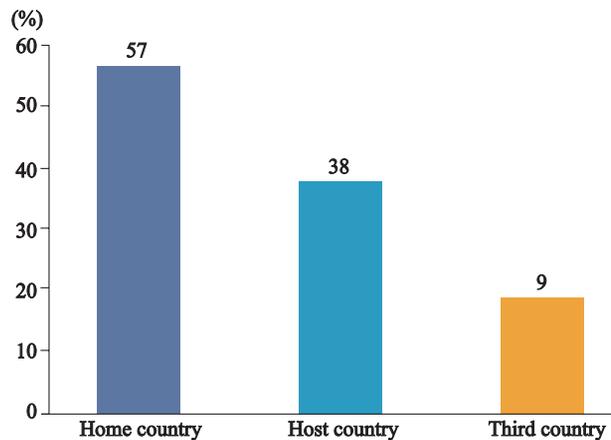


Figure 6.5: Main procurement channels for companies’ cross-border businesses

\*Note: The aggregate percentage exceeds 100% because multiple selections are permitted for this question.

Figure 6.6 shows that companies with larger overseas businesses are more likely to purchase locally, and are more active in building local connections.

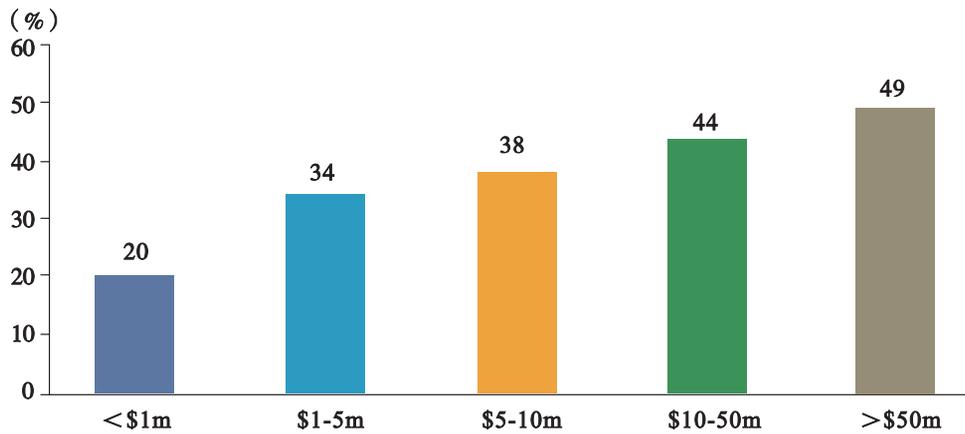


Figure 6.6: Proportion of procurement from host countries for companies' cross-border business (by investment scale)

The survey results also shows that companies that have operated overseas for more than ten years conduct a larger percentage of their procurement locally. Finding suitable and reliable local suppliers and networking with local chambers of commerce is a time-consuming process. As they continue to operate in the host countries and accumulate experience, multinationals may become more familiar with local economies and business models, and are easier for localizing their procurement strategies. Similarly, local suppliers may also need time to adapt to multinationals' requirements for quality and time of delivery (See Figure 6.7).

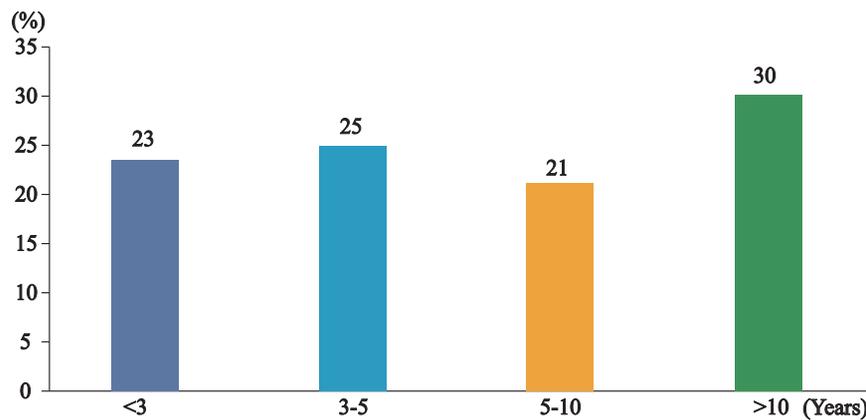


Figure 6.7: Proportion of procurement from host countries (by years of foreign investment)

Despite the various challenges facing Chinese companies multinational operations, some companies have achieved success. SANY Heavy Industry's expansion to India market demonstrates an attempt by China's private companies in localizing businesses in host countries.



#### Case Study 4: SANY Heavy Industry's localization strategy in India

Founded in 1994, SANY Heavy Industry Co., Ltd. (SANY) is a company focused on the R&D, manufacturing and the sale of construction machinery. Persistent in its efforts to become a globalized company, SANY has so far set up representative offices in more than 150 countries and regions, with 30 overseas subsidiaries and four overseas industrial parks.

To seize the opportunities presented by India's demand for construction machinery during its infrastructure upgrade, SANY founded SANY India in 2002 and later built the SANY India Industrial Park, which was completed and went into operation in 2009. Located in Pune and covering an area of 80 acres, the Industrial Park now has 178 employees who mainly engage in the production and sales of excavators, truck cranes, crawler cranes, port cranes, rotary drilling rigs and other construction machineries. SANY's products are sold across South Asia and parts of Africa, Middle East, and Asia Pacific. SANY India Industrial Park has created a "global localization" strategy, through which the company hopes to achieve sustainable development outside of China by tapping into local businesses and resources.

- **Localization of human resources**

Recruiting local talent is an important component of SANY India's drive to become a more localized business. "We aspire to combine our Indian employees' experience with Chinese employees' professional skills, thereby turning SANY India Industrial Park into a business with true Indian roots," says SANY India's General Manager. During its overseas expansions, SANY has gradually achieved the goal of letting local people recruit and manage local employees at its industrial parks.

While such a strategy helps SANY gain insight into local markets, it also strains corporate governance. On the one hand, locally recruited employees can help the company understand and thus meet customer needs by leveraging their deep understanding of local politics, culture and business environment. They play a positive role in assisting the company adapt to the new environment, establish a local commercial network, and understand and comply with local laws and regulations, all of which reduce the potential risks to the company's overseas business. On the other hand, language and cultural gaps may cause misunderstanding and communication barriers between Chinese employees and their Indian colleagues.

Consequently, SANY has taken a series of steps to lower communication costs and expedite the integration of the two cultures within the company, including organizing cross-cultural communication training, holding internal events to facilitate the exchange between middle and senior management teams, and dividing work into projects and tasks (examples include setting annual performance targets and implementing quarterly performance incentives and fines). These measures bring benefits to both the company and its employees: employees are increasingly identifying themselves with SANY's corporate culture, forming a more cohesive team, while SANY develops a better understanding of India's business culture and market demands.



Aside from recruiting local talent, SANY also trains its local employees. It has set up a 400m<sup>2</sup> global training center in India, which offers both theoretical and practical courses for Indian marketing and service personnel, dealers, and machinery operators.

The 16-people management team of SANY India Industrial Park comprises five Chinese and 11 Indians. Among the 11 Indian managers are the Industrial Park's CEO, Marketing Director of the Excavator Department, Sales Director of the Heavy-Lift Crane Department, and Manufacturing Director of the Supply Chain Department. They are mainly in charge of the company's operations and aspects directly related to products, such as production, marketing, sales, and quality supervision. The use of local managers helps SANY gain insight into the local market and reduce the company's exposure to India's political, economic, cultural, language, and business environment risks in connection with the operations of the company's overseas branch.

Table 6.1: Nationality of SANY India's top executives

Department	Position	Nationality
Decision-making Body	Chairman	China
	CEO	India
Excavator Department	Vice Chairman	India
	Sales Director	India
	Marketing Director	India
	Customer Service	India
Heavy-Lift Crane Department	Director	India
	Sales Director	India
	Customer Service	India
Department of Supply Chain	Vice Chairman	China
	Business Director	India
	Manufacturing Director	India
	Quality Control Director	India
R&D Department	Director	China
Finance Department	CFO	China
Human Resources Department		China

#### • Localization of procurement

Purchasing from local suppliers is another essential part of SANY's "global localization" strategy and a testament to its commitment to social responsibilities. Using SANY's bestselling excavator SY210 as an example, 40% of its components are purchased locally, 30% are from China, and the remaining 30% are from a third country. When making purchasing decisions, SANY prefers

components made locally in India. Only components that are not produced locally or whose quality or price deviates substantially from SANY's requirements will be procured from within China or a third country.

- **Localization of Sales network**

SANY India Industrial Park also spends greater efforts on cultivating dealer relations and building a highly efficient distribution network in India, a strategy that brings mutual benefits to SANY and local dealers. For SANY, working with local dealers saves the human, financial and material resources otherwise required to build a sales network from the ground up, avoids potential conflicts with the local culture and religions, and enables the company to acquire in-depth knowledge of the local sales system. At the same time, this strategy also drives the development of local dealers and distribution channels.

When selecting dealers, SANY puts emphasis on the candidate's experience in the industry, level of service and professionalism, and overall quality. Once a dealer is signed, SANY will also offer follow-up training to bring the dealer up to speed. Using SANY's Hyderabad dealer M/s Amitha Engineering as an example, the dealer's manager Mr. Suresh Reddy had accumulated much experience in the sales of construction machinery parts before joining SANY. After M/s Amitha Engineering became a SANY dealer in 2011, SANY regularly trains Amitha Engineering's sales and service staff, helps it recruit the best talent in the industry, gives guidance on holding such promotional events as "Excavator Contest", and stations special marketing and service representatives at the dealer to provide day-to-day marketing and service support. After becoming SANY's dealer and benefiting from SANY's close support in sales and management, M/s Amitha Engineering saw its annual sales within its area surged from RMB 5 million in 2011 to RMB 26 million in 2014. "SANY's products are excellent. SANY is building its brand image and has bright futures in the Indian market", says Mr. Suresh Reddy. By choosing and supporting local dealers, SANY has saved human, financial and material costs and has avoided potential conflict with local Indian culture and religions, and promoted the development of local dealers and industries.

## 4. Transfer of Technologies and Management Experience

Decades of rapid development have given Chinese companies some fairly sophisticated technologies and management experience. Globalized Chinese companies have been transferring these technologies and management experience to their partners in host countries in ways that are tailored to local markets.

Our findings show that 87% of surveyed Chinese companies have transferred technologies to host countries or have technology cooperation with them (See Figure 6.8 and Figure 6.9). With respect to the form of such transfer or cooperation, more than 50% of surveyed companies state that the transfer is accomplished mainly through exchanging their technologies for shares and establishing subsidiaries. 17% say that they have transferred mature technologies to developing countries (these companies are typically from the ICT, agriculture, forestry, fishery and animal husbandry and construction industries); and 16%

have transferred complete sets of equipment in technology- and capital-intensive industries via turn-key projects<sup>①</sup>.

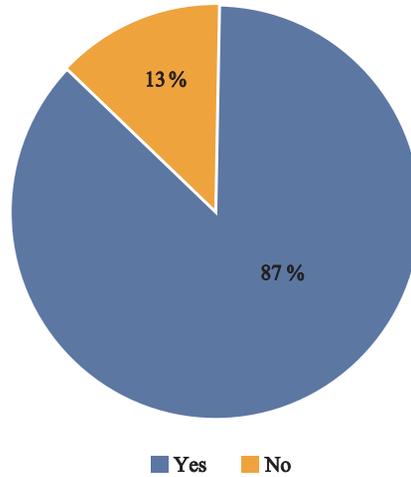


Figure 6.8: Has there been technology transfer to and collaborations with the local companies?

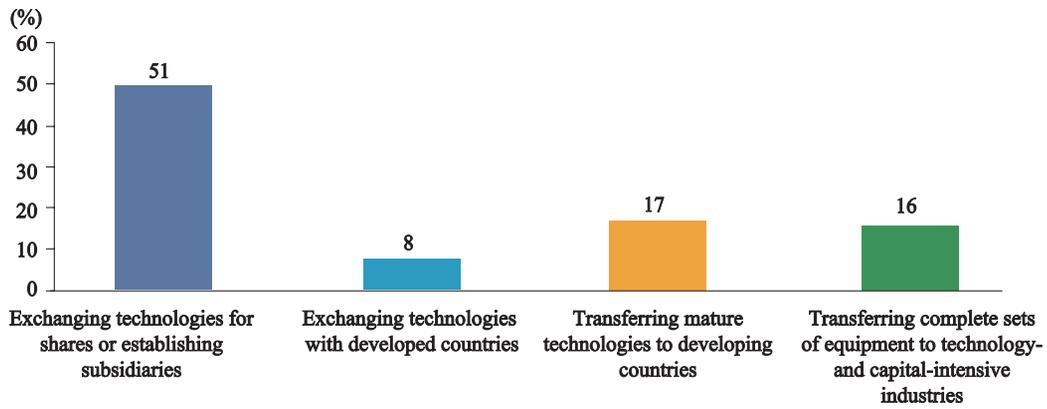


Figure 6.9: Forms of technology transfer during companies' investment and cooperation overseas

Data show that 77% of the contractors for construction projects will recommend their own or China's engineering quality standards if they are higher than the host country's standards, which to some extent also raises the technological standards and management experience of host countries (Figure 6.10).

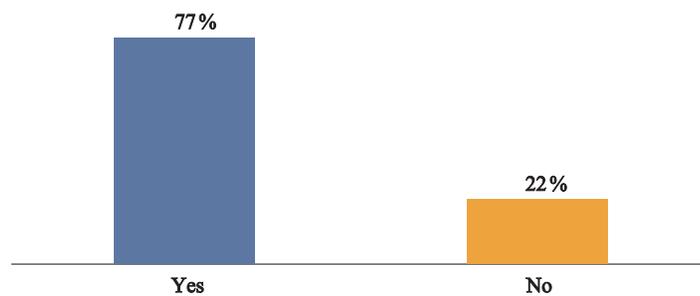


Figure 6.10: Percentage of Chinese contractor recommend host countries to adopt higher engineering standards

<sup>①</sup> Turn-key project is a type of project where the contractor or provider undertakes the entire responsibility from design through completion and commissioning.

With regard to the effect of technology and management experience transfer, our survey results indicate that around 80% Chinese companies believe that there exists spillover effects to host countries' suppliers and subcontractors, helping to improve their technological and managerial capabilities. However, Chinese companies are less optimistic about the magnitude of this effect. Only 31% of these companies think the spillover effect has produced significant effect; 51% say that the spillover has brought some limited benefits to the locals; and 17% believe that there has been no improvement to the local technologies and management.

Ideally, China's technological spillover effect on host countries (especially developing countries) should typically be achieved by providing local suppliers and subcontractors with technology support, providing local companies with technical training, and purchasing raw materials from local companies. By purchasing locally in host countries, Chinese companies would encourage local suppliers to innovate technologically under the pressure of peer competition in order to meet customers' quality and deadline requirements, which would improve both the technology and management experiences of local companies. Several reasons may account for why the current transfer of technology and management experience has such a lackluster effect. These are technology mismatches and language barriers, and the limited capacity of companies and industries in host countries to assimilate the technologies being transferred, which is especially pronounced in less developed countries.

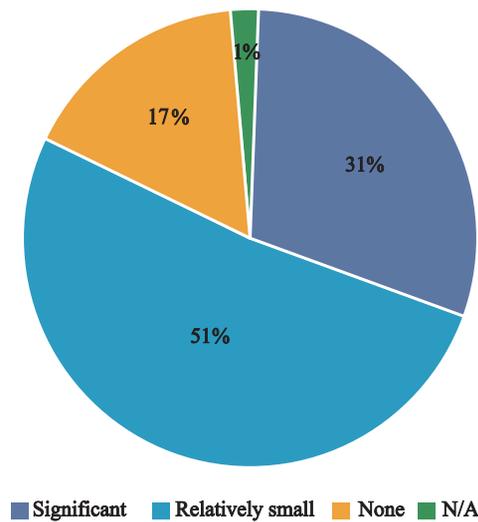


Figure 6.11: Technology and management improvement of partners in host countries with the help of Chinese companies

In addition to helping a host country's suppliers, subcontractors and customers improve their technologies and management strategies, Chinese companies should also promote the sustainable development of the host country by setting related economic, social, and environmental standards. Our survey shows only 23% of the Chinese companies surveyed have formulated and put into practice a system for evaluating the sustainability performance of overseas suppliers; 56% of the companies are planning to establish such a system; and the remaining 17% have not recognized the significance of such a system (Figure 6.12).

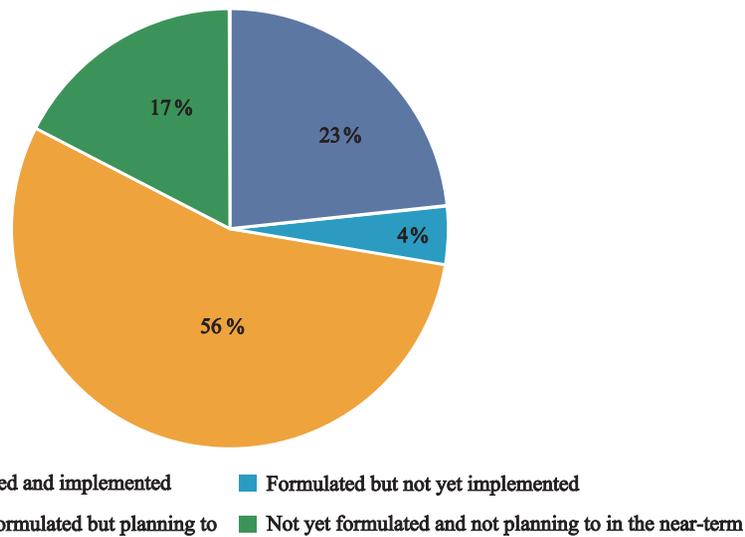


Figure 6.12: Proportions of Chinese companies that have formulated a sustainable development evaluation system for overseas suppliers

In sum, Chinese enterprises have tried to promote technology and management level of the host countries. However, there is more to do. China Machinery Engineering Corporation’s programs in Sri Lanka could provide good experience for other companies to draw upon.

### Case Study 5: China Machinery Engineering Corporation’s electrical technician training program in Sri Lanka

Founded in 1978 and headquartered in Beijing, China Machinery Engineering Corporation (CMEC), listed on Hong Kong Stock Exchange in 2012, is a member of China National Machinery Industry Corporation. CMEC has, over several years, grown into a conglomerate with core businesses in engineering project contracting, trade, R&D, and international services facilitated by its tight integration of industrial, commercial and technological expertise.

Having been operating for over 30 years, with the corporate philosophy of “Create Ideas, Achieve Dreams”, CMEC is competitive in providing one-stop customized turnkey project solutions including project planning, Engineering Procurement Construction (EPC), financing and reliability. The contracting business involves electric power, transportation, electronic communications, etc. In 2014, CMEC was ranked eighth among the Top 100 Enterprises of China’s Overseas Contracted Project Completed Business Turnover measured by MOFCOM.

#### • Providing power supply in Sri Lanka

In order to solve the problems of lack of access to affordable electric power, the government of Sri Lanka engaged CMEC as the contractor for the Puttalam Power Plant Project, making it the largest government-backed construction project since the founding of Sri Lanka, as well as the largest economic and trade cooperation project between the two nations.

Boasting a planned capacity of 3 × 300MW, the Puttalam power plant project comprises two

phases. So far, the total power production exceeds 10 billion kWh, satisfying over 50% of the national electricity demand. As a result, the power plant in Puttalam – nicknamed “the light of Victoria” by local residents – has become a distinctive symbol of the friendship between China and Sri Lanka and is prominently featured on Sri Lanka’s 100-rupee banknote.



100-rupee note featuring the power station in Puttalam

• **Organizing trainings to ensure sound operation and maintenance of the power plant**

During the construction phase, CMEC committed to fulfilling its social responsibilities to ensure the sound and stable operation of the power plant upon delivery. In particular, as per the terms of the contract, CMEC organized a group of over 70 representatives (comprising project owners) to come to China and complete a ten-week systematic training and exchange program consisting of lectures on theories, power plant field training and visits to equipment suppliers. Furthermore, CMEC also organized a considerable amount of training beyond the scope of the original contract:

- (1) CMEC provided six-months of on-the-job training at a Chinese power plant of a similar nature and scale to over 10 senior managers and project engineers, helping them to gain a well-rounded and in-depth understanding of the management, operation and maintenance of the power plants as well as the related management systems, organization and procedures, staffing, and technical operations;
- (2) CMEC purchased generator simulation units with its own money and established on-site training bases for project owners, allowing them to receive training on simulators and helping them to establish a long-term, sustainable training mechanism;
- (3) Upon delivery of the generators, CMEC hired a maintenance team to remain on-site providing operational and maintenance services and hands-on, one-to-one guidance to local plant operators who were short on numbers and experience, reinforcing on-the-job training for project owners and ensuring that they could start to operate the plant as quickly as possible.

Meanwhile, to ensure the smooth transfer of technology, on top of intensive training and short-term training programs for Sri Lankan engineers, CMEC and the Ceylon Electricity Board will also sign a follow-up technology cooperation agreement, allowing trainees from Sri Lanka to take courses at higher education institutions with a focus on electric power in China. Individuals enrolled on these courses will take their expertise back to Sri Lanka, where their skills will help to support the local power industry. The Executive Secretary of the Ministry of Power and Energy of Sri Lanka offered his high remarks:

*“By helping us train a pool of electric power specialists, CMEC has assisted Sri Lanka in laying a solid foundation for the development of its power industry.”*

## 5. Compliance and Market Competition

Regulatory compliance is the minimum legal requirement that companies must observe in their operations. Among the Chinese companies that operate overseas and responded to our survey, 91% hold “business integrity” as one of their core values; nearly half of the companies surveyed have rules on anti-corruption, fair competition and anti-commercial bribery (Figure 6.13).

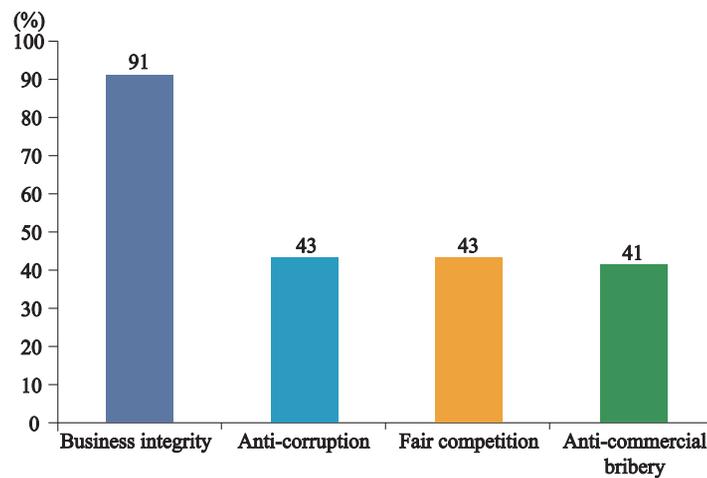


Figure 6.13: Rules established by Chinese companies to achieve compliant operations

Responding to our questionnaire, Chinese companies indicate their main overseas competitors are (in descending significance): other Chinese companies, foreign multinational companies and local companies (Figure 6.14). In general, Chinese companies are accelerating their pace of internationalization as many are expanding or starting to expand their overseas markets. This means that there will be some competition among Chinese companies in the near-term.

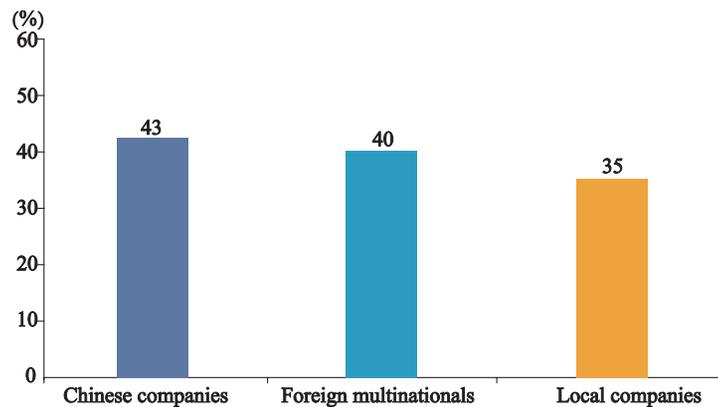


Figure 6.14: Main competitors to Chinese companies' operations in host countries in the last three years

\*Note: The aggregate percentage exceeds 100% because multiple selections are permitted for this question.



In the questionnaire, enterprises were asked whether their company have been investigated in the host countries due to the breach of local laws/regulations on investment, taxation, employment, environmental protection or intellectual property in the past three years. Most of the enterprises chose “No”; however, few enterprises admit that they have been investigated in host countries before.

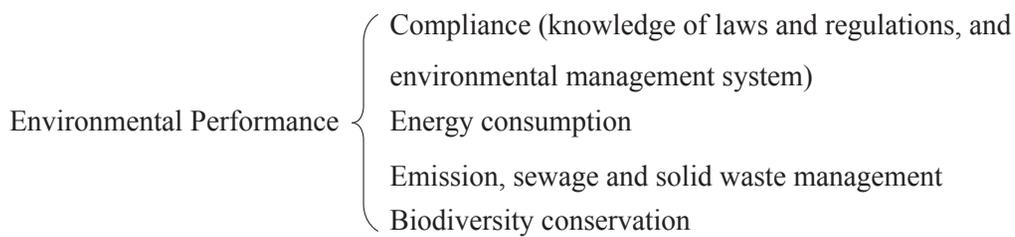


## VII. Environmental Performance

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In the course of overseas operations, companies should mitigate any impacts to the environment and ecosystem. In countries with fragile ecosystems and relatively underdeveloped laws and regulations, the self-discipline and accountability of companies is particularly important. With the introduction of relevant laws and regulations by the Chinese government as well as the oversight by environmental protection organizations at home and overseas, it is important for Chinese companies' environmental awareness and management to be strengthened with continually improving technical methods, so that they avoid environmental risks and comply with international environmental conventions and the requirements of the host country.

This chapter will explore the overseas environmental performance of Chinese companies from the following aspects:



### 1. Compliance

#### 1.1 Knowledge of laws and regulations

When asked about their “familiarity with the relevant environmental laws of China and the host country”, most companies gave an affirmative response. Figure 7.1 shows that, with regard to Chinese environmental laws and regulations relating to their own industries, 32% companies say that they have “a comprehensive understanding” and 54% have “basic understanding”; whereas regarding environmental laws and regulations in host countries that relate to their own industries, 38% companies say that they have “a comprehensive understanding” and 54% have “basic understanding”.

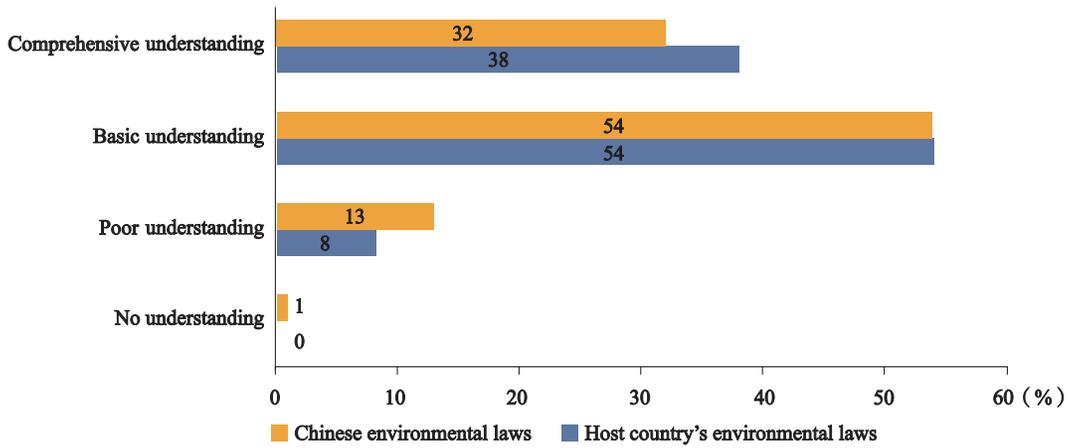


Figure 7.1: Familiarity with the relevant environmental laws and regulations of the host country and China

With further analysis, we also find that Chinese companies' familiarity with environment-related laws and regulations has a positive linkage to their length of overseas operations and investment scale, i.e., more experience in overseas operations and larger investment scales correspond to a better understanding of the relevant laws and regulations (See Figure 7.2 and Figure 7.3).

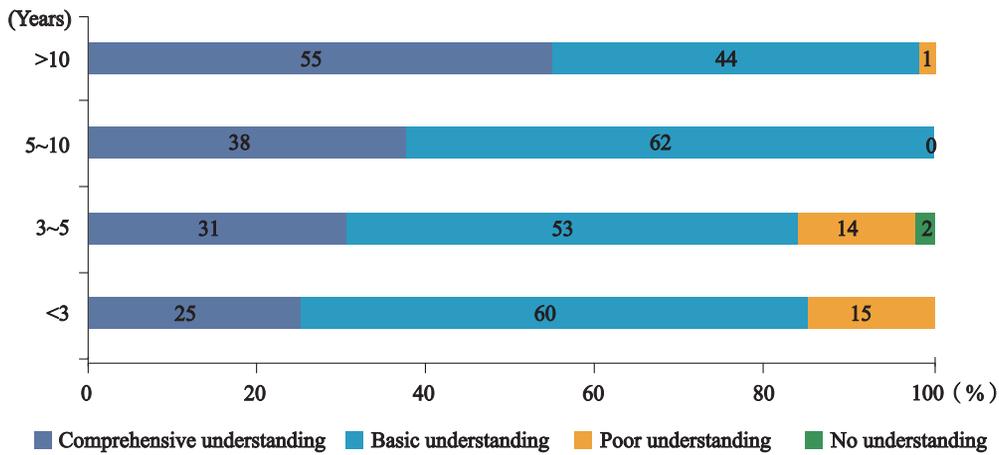


Figure 7.2: Familiarity with environmental laws and regulations of host country (by years of overseas operations)

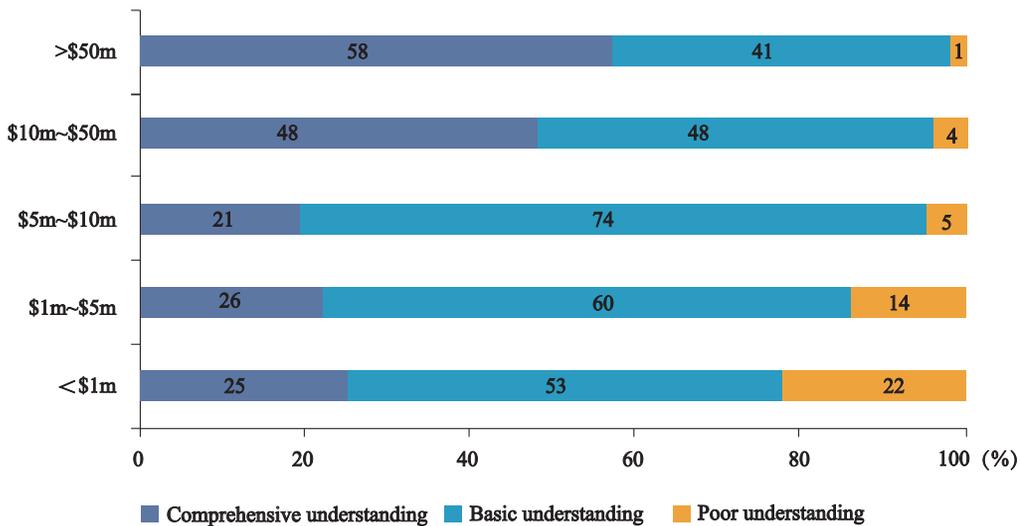


Figure 7.3: Familiarity with environmental laws and regulations of host country (by investment scale)



Chinese companies were asked whether they have come across disputes caused by environmental problems while operating in the host countries over the past three years, and majority of the surveyed companies indicated that no such incidents had taken place; while few companies indicated otherwise. Enterprises were also asked whether in the past three years their companies have been investigated or reported by host country NGOs or media regarding the environmental issues, very few enterprises noted that such investigation/reporting; however, two companies said they had been investigated/reported at least once a year.

### 1.2 Environmental management system

As for whether third-parties were engaged to carry out environmental impact assessment (EIA) of overseas projects, 76% of Chinese companies give an affirmative answer. However, in relation to following-up on the assessment recommendations, 20% of companies have implemented all recommendations; 44% of companies say they plan to implement the recommendations in phases; and 12% of companies said the assessment did not give any recommendations for improvement. The remaining 24% of companies did not carry out an environmental impact assessment at all, part of the reason is that their due industries do not require EIA.

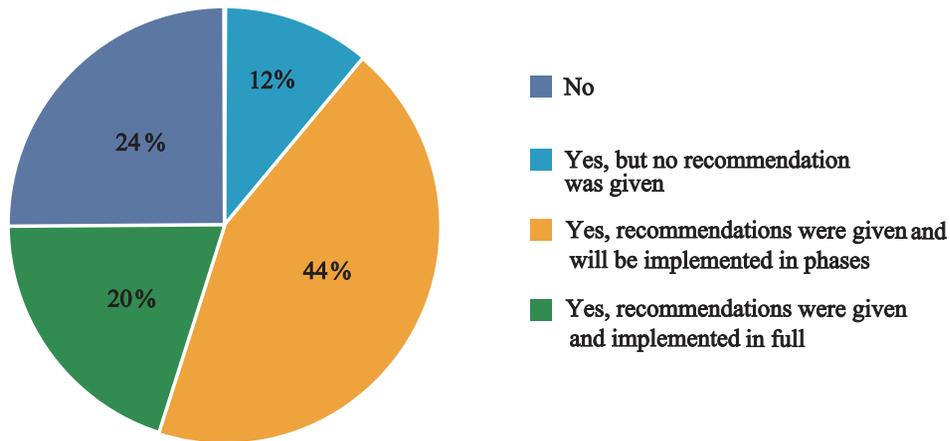


Figure 7.4: Whether a third-party is engaged to carry out environmental impact assessment of overseas projects

To better understand the factors influencing a company to conduct a third-party EIA, we analyzed their participation based on years of overseas operations, investment type and size. Figures 7.5-7.7 show the percentage of companies carrying out third-party EIAs in terms of each of these three dimensions. As can be observed below, companies that have been operating overseas for longer perform better in this regard than those that are less experienced; companies conducting overseas mergers and acquisitions (84%) are leading over those making greenfield investments (75%); and companies with more than \$10 million of overseas investment have done much better than those with less.

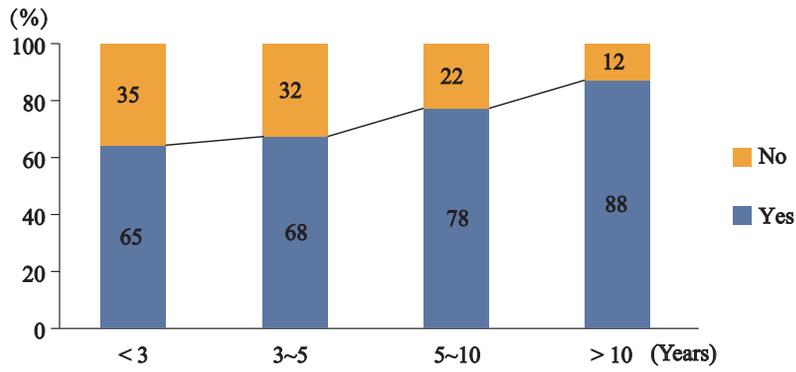


Figure 7.5: Third-party environmental impact assessment of overseas projects (by years of overseas operations)

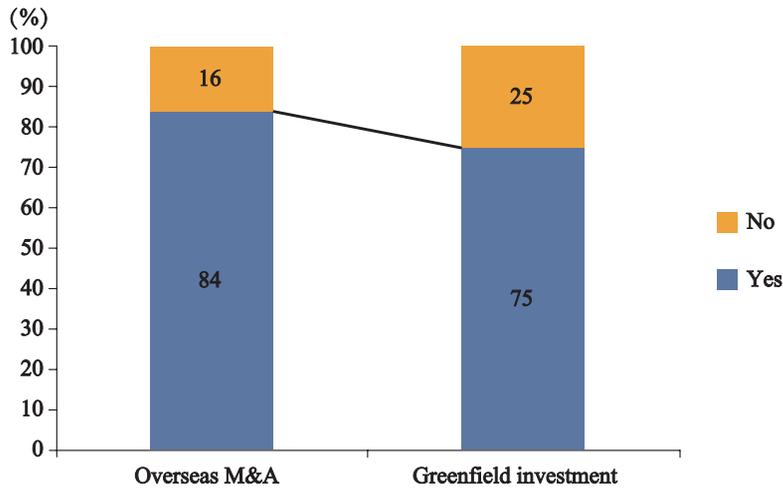


Figure 7.6: Third-party environmental impact assessment of overseas projects (by investment type)

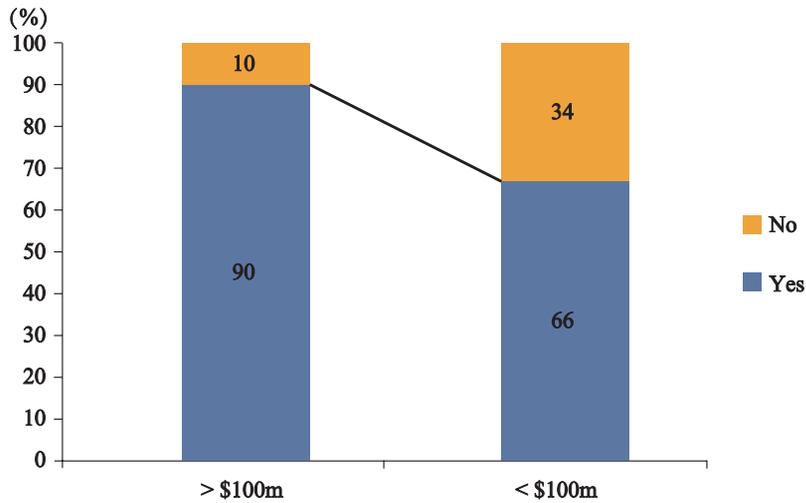


Figure 7.7: Third-party environmental impact assessment of overseas projects (by investment scale)

The top three environmental management measures favored by the Chinese companies surveyed are: purchasing and installation of pollution control equipment to reduce emissions, investment in environmentally friendly products to reduce environmental impacts, and regular assessments of the environmental impact in production and operations. However, there is still significant room for

improvement in environmental management reports published regularly by the Chinese companies surveyed. Enhanced efforts are also needed in introducing environmental life cycle assessment of products and releasing internal environmental management reports on a regular basis (See Figure 7.8).

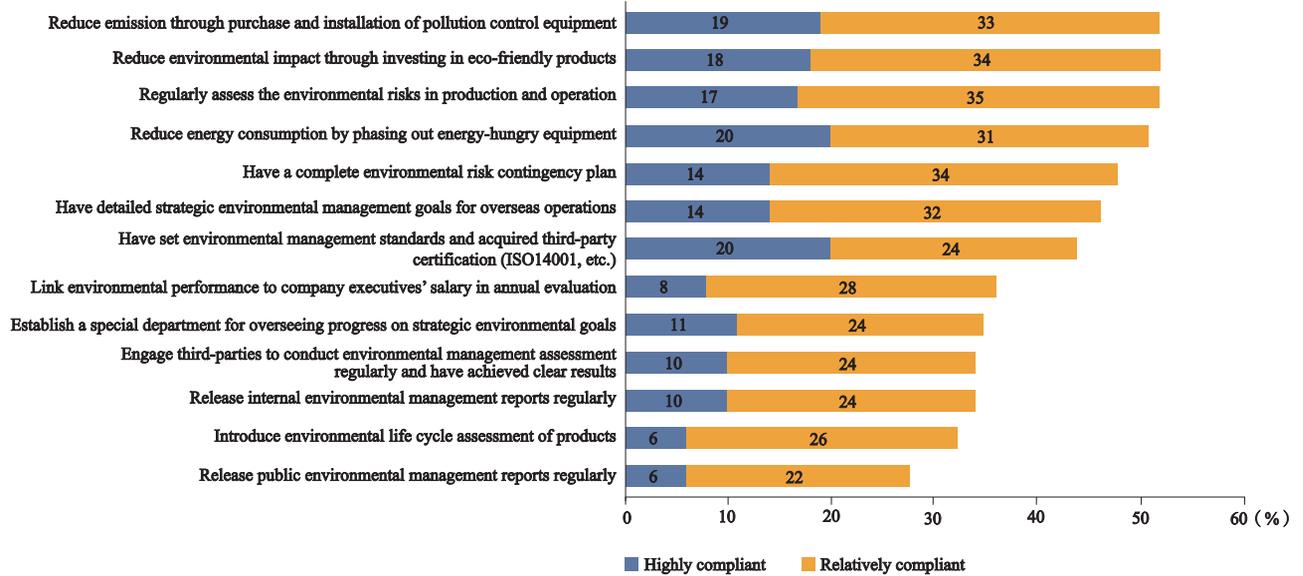


Figure 7.8: Overview of Chinese companies' environmental management in the host country

## 2. Energy Consumption

Survey results show that most Chinese companies have developed and implemented measures on energy efficiency and conservation for their overseas operations. Among them, 48% of companies believe that they have achieved cost-savings through such measures; 31% have implemented relevant measures but have not seen cost-savings benefits; and 21% have not yet developed any measures.

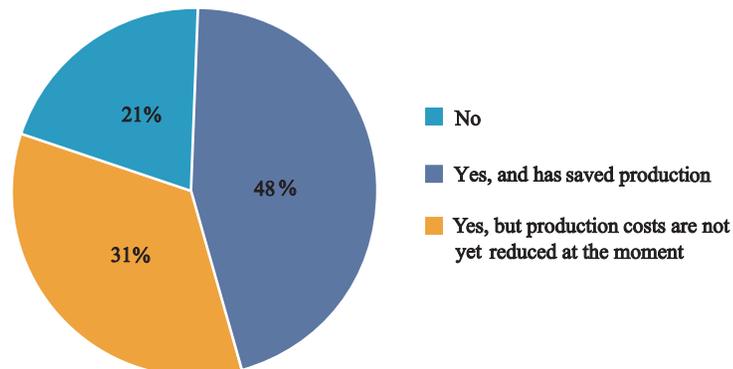


Figure 7.9: Development and implementation of energy efficiency management and conservation measures for overseas operations

### 3. Emission, Sewage and Solid Waste Management

Survey results show that 76% of the companies said that they have developed waste disposal and management system, including the reduction and treatment of gas emission (such as CO<sub>2</sub>) and sewage; the remaining 24% companies have yet to develop or implement relevant measures (See Figure 7.10).

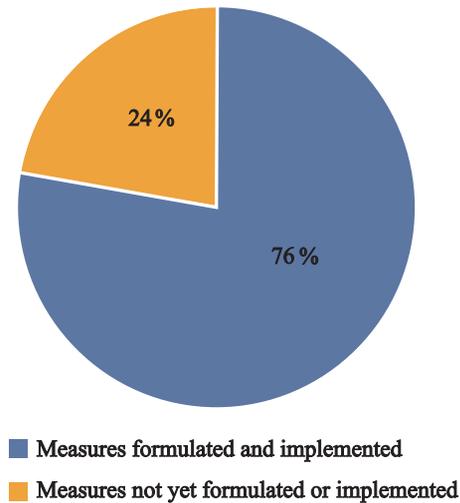


Figure 7.10: Development and implementation of waste disposal and management system

### 4. Biodiversity Conservation

Survey results show that 80% of companies believe that their operations will not have an impact on local biodiversity, 18% say there would be an impact, and 2% consider the impact to be significant (as shown by Figure 7.11).

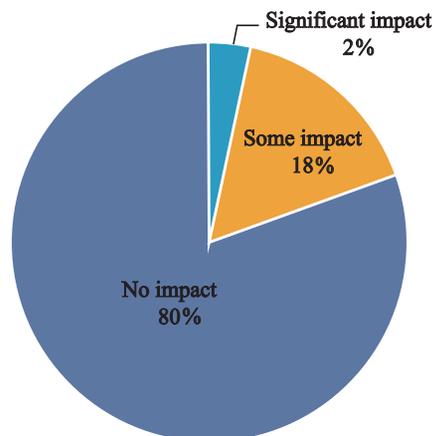


Figure 7.11: Impact of companies' overseas operations on local biodiversity conservation

Figure 7.12 presents an analysis of companies' overseas operations on biodiversity by years of overseas operations. The companies "gone global" for less than five years believe that they have had less

impact on biodiversity than those companies operating overseas for more than five years.

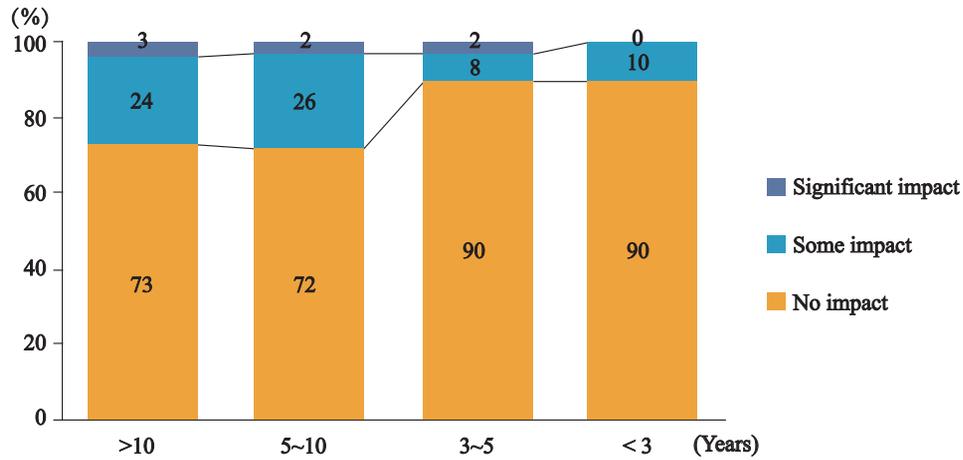


Figure 7.12: Impact on local biodiversity conservation (by years of overseas operations)

The Chinese Ministry of Environmental Protection has defined four key measures that can be taken by companies for biodiversity conservation: in-situ conservation (wherein a certain area of land or water containing the species under protection is defined to protect and manage biodiversity, examples include the establishment of nature reserves for on-site conservation); ex-situ conservation (in places other than species' natural habitat, various forms of conservation facilities, such as zoos, botanical gardens, arboretums, safari parks, seed banks, gene banks and aquariums, are established to provide artificial protection for those relatively rare species or species of ornamental value and their genes); establishment of gene banks (for example, a global network of gene banks is established in order to protect the cultivars of crops and their endangered wild relatives); and the establishment of legal frameworks for biodiversity.<sup>①</sup> Among the companies surveyed, 51% participate in in-situ conservation systems, 13% choose to support ex-situ conservation of species, and a few promote the establishment of legal framework for biodiversity (5%) or assist in the establishment of gene banks (2%).

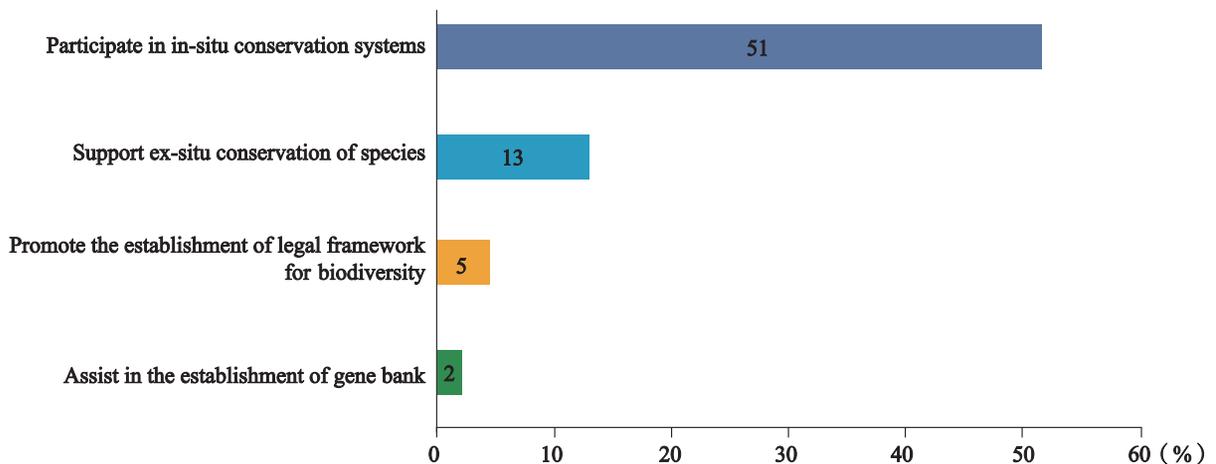


Figure 7.13: Measures taken in overseas operations for local biodiversity conservation

<sup>①</sup> See the website of the Chinese Ministry of Environmental Protection: [http://xjs.mep.gov.cn/hjsy/201002/t20100201\\_185196.htm](http://xjs.mep.gov.cn/hjsy/201002/t20100201_185196.htm)



Those Chinese companies with a longer history of “going global” have accumulated more experience in overseas ecological and environmental conservation, and thus are more in line with international practices. The following case studies of China National Petroleum Corporation’s project in Ecuador, and China Road and Bridge Corporation’s project in Kenya, may provide useful lessons for other Chinese companies in overseas environmental conservation.

### Case Study 6: Environmental conservation efforts by China National Petroleum Corporation in the tropical rainforest of Ecuador

As one of the major oil and gas producers and suppliers in China, China National Petroleum Corporation (CNPC) is an integrated international energy company engaged in oil and gas exploration and development, refining and petrochemical, sales and trading, pipeline storage and transportation, engineering and technology, project construction, equipment manufacturing and financial services. It has oil and gas operations in 34 overseas countries and provides engineering and construction services in more than 60 countries.

CNPC attach great importance to environmental protection and have developed a number of environmental conservation measures in response to international engagement. In 1997, CNPC adopted the ISO140001 standards for environmental management system, which requires companies to define complete construction process and related impacts, develop precautionary measures, identify and report issues and take appropriate measures on a timely basis.

In September 2005, CNPC and SINOPEC established a joint venture, Andes Petroleum Ecuador Ltd., in which CNPC holds 55% stake. In early 2006, Andes Petroleum was formally approved by the Government of Ecuador as an oilfield operator. Located in the Amazon rainforest in eastern Ecuador, the oilfield covers an area of 5,668 square kilometers, of which more than half is in the national reserves that represent one of the world’s environmentally sensitive areas. Due to its unique geographical position as well as its precarious biological and environmental diversity, CNPC’s Andes Project has received high attention from international environmental organizations for its environmental conservation practices. CNPC has prioritized environmental conservation and production safety in every stage of its operation and ingrained the concept of sustainability in its management, human resources and technologies.

#### • Development and implementation of strict safety and environmental protection systems and processes in accordance with the highest industrial standards

Believing that the environmental, health and safety (EHS) management system is a prerequisite for business development, the Andes Project prioritizes environmental protection in its management decisions. For instance, Andes Petroleum has made efforts to ensure that pollution control facilities were designed, constructed and put into operation simultaneously with the master project, exactly as the Chinese government required. In addition, as one of its major strategic arrangements, the company has set up a dedicated EHS management department for strict implementation of the highest standards in the industry and overall management of the EHS issues in its operations.



Andes Petroleum has developed a series of environmental management rules and plans, including *Management of Environmental Monitoring*, *Statistical Environmental Management*, *Plan for Establishing an Online Pollution Source Monitoring System* and *Guidelines for Identification and Screening of Environmental Factors*, so as to ensure the implementation of effective environmental management system, emission reduction indicators, monitoring and evaluation system.

- **Green mining with advanced technologies**

In strict compliance with local environmental laws and international standards, Andes Petroleum has achieved the goal of “zero pollution”, “zero emission” and “zero accident” by using advanced technologies for clean production and pipeline construction, recycling and reprocessing the waste of oil production and reducing carbon emissions.

According to a report by China Today, “CNPC formulated a three-year rainforest pollution control plan upon undertaking management of oilfield operations. It stipulated that Andes Petroleum submit environmental reports at every link of its production. Specific measures included safe disposal of waste mud, re-injection of water into underground formations after the water is suitably treated for safety, the use of associated gas produced to generate electricity, and the guaranteed restoration of landforms in the shortest possible time after field operations. To achieve the maximum recycling of resources, CNPC constructed a comprehensive waste disposal center. Its functions include converting organic waste into organic fertilizer earmarked for local vegetation, collection and appropriate disposal of inorganic waste prior to dispatching it to government-designated recycling centers, and application of integrated water treatment works that achieve zero discharge of oilfield wastewater. CNPC has also set up nursery gardens in nearby communities to cultivate seedlings that will restore vegetation.”

In addition, helicopters are used by Andes Petroleum in oil production to transport drilling rigs and other equipment in order to avoid the destruction of vegetation. Meanwhile, a GIS (geographic information system) is used to monitor the impact of exploration and development activities on the environment, and offer support to decision-making in such aspects as location selection, locating pipe leaks, wetland analysis, analysis and monitoring of nature reserves, and analysis of the transportation network.

With comprehensive management and through various measures and practices, Andes Project’s EHS indicators remain at an industry-leading level in the region. No employee safety incident or environmental pollution accident has occurred in the course of oil production to date. The officials of the Ecuadorian Ministry of Environment have spoken highly of the company’s commitment to environmental protection and its advanced technology of bio-oxidation treatment of contaminated soil. The Andes Project has also won many awards from internationally renowned institutions such as World Oil & Gas and BIZZ for its environmental protection efforts and innovation in corporate management, as well as the Excellence in Petroleum Technology Development award from Ecuador’s Ministry of Non-renewable Natural Resources and the International Society of Petroleum Engineers.

### Case Study 7: China Road and Bridge Corporation (CRBC) protecting wildlife and local ecology in Kenya

China Communications Construction Company (CCCC) is a Fortune 500 firm focusing on designing, construction and operation of roads, bridges, ports, railways, tunnels and civil works, dredging of ports and waterways, manufacturing of heavy maritime equipments and road-building machinery and investment in transportation infrastructure. It is ranked the 5th among Top 250 Global Contractors by the Engineering News Record, the highest place among Chinese firms for 9 consecutive years. China Road and Bridge Corporation (CRBC), a subsidiary of CCCC, is responsible for the construction of the Mombasa-Nairobi Standard Gauge Railway (SGR) Project, Kenya's first new railway for nearly a hundred years and dubbed as "a milestone project" by Kenya's president. The railway, when completed, is expected to run through Kenya's largest wildlife sanctuary—Tsavo National Park, a 20,000-square meter area home to almost all Africa's unique species.

- **Corridor for wildlife to ensure regular migration**

In order to minimize interruption to local wildlife, CRBC has designed corridors for them to allow regular migration. Particularly, to ensure passages for giraffes and other large animals, CRBC has built bridges as high as seven meters, much higher than those in similar projects in other places. To mitigate shortages of water for animals in dry seasons, CRBC has designed drinking facilities along the railway. Electricity used in guard-rails is also carefully controlled to avoid harm to animals.

- **Pause of work at night**

The 500-kilometre railway has been planned to be completed within 5 years—an extremely tight schedule for an enormous amount of work. Even so, CRBC is determined to minimize interruption to local wildlife by pausing work at night. Noise reduction equipments have been in place and "no horn blowing" signs have been placed along the sideway. In addition, in dry seasons, Mtito Andei, where the construction is taking place, is often troubled by dust. CRBC have provided road sprinklers to control dust, improving living conditions for local people and wildlife. The sprinklers are asked to run slowly to make way for passengers and animals.

- **Depth limit of pits to avoid drowning**

A large amount of earth, and thus much digging, is needed for the SGR Project. CRBC has located digging far from wildlife habitats. A limit on the depth of pits has been set so that the pits would not hold much water in wet seasons, otherwise the water pits might drown animals. Meanwhile, CRBC has made exceptional efforts to recover and reclaim the pits to ensure land restoration and minimize interruptions to wild flora and fauna.

- **Emergency response plans for wildlife rescue**

Due to external factors and uncontrollable forces, accidents can happen to wild animals from time to time. Therefore, CRBC has planned emergency response to rescue trapped animals when necessary. On February 10th 2015, the Fourth Project Manager Department of the SGR Project received a report from the Kenya Wildlife Service that a wild elephant had dropped into a natural water pit. The Department responded

immediately by sending a rescue team. After careful inspection, the team worked out a rescue plan and finally helped the elephant out after 5 hours of hard work. The timely rescue was appreciated by KWS and the World Animal Protection, with which CRBC also developed closer ties.

Since the commencement of the Mombasa-Nairobi SRG Project, CRBC has given priority to local ecology and taken well-rounded measures to ensure effective protection of wildlife and their habitats. As a result, CRBC has received a letter of thanks from the Big Life Foundation in Kenya. CRBC is trying to maintain a harmonious relationship with local communities and is seen as a responsible Chinese enterprise.

## 5. Analysis of Key Industries

Compared with other industries, mining, construction, agriculture, forestry, animal husbandry and fishing are more closely related to environmental protection. Therefore, we have made further analysis of these industries by combining survey results with case studies.

### • Mining, new and renewable energy

Mining, new and renewable energy industry is more likely to have an impact on the environment and biodiversity than other industries. The following four figures show the environmental performance of Chinese mining, new and renewable energy companies in overseas operations in terms of compliance and biodiversity conservation. On average, based on survey results, the mining, new and renewable energy industry appear to perform better with regard to environmental indicators than other industries.

First of all, as shown in Figure 7.14, 61% of the mining, new and renewable energy companies believe they have “comprehensive understanding” of the environmental laws and regulations of the host country relating to their own industries, and the remaining 39% said they have “basic understanding”. By contrast, only an average of 33% of companies in other industries said they have “comprehensive understanding” and 8% say they have “poor understanding”. As shown in Figure 7.15, a third-party environmental impact assessments were undertaken prior to the commencement of 88% of overseas mining, new and renewable energy companies’ projects, which is higher than the average of 74% in other industries. As shown in Figure 7.16, 35% of mining, new and renewable energy companies’ investments have an impact on local ecology and environment, 2% have a significant impact; while in other industries, 17% have an impact on local ecology and environment, and 2% have significant impact. The survey also shows that the Chinese companies engaged in overseas mining, new and renewable energy investment and cooperation activities are in a better, or even leading position than those in other industries on several important environmental issues. Furthermore, on average, mining, new and renewable energy companies have a higher adoption rate of the four measures for local biodiversity conservation than the other industries (See Figure 7.17).

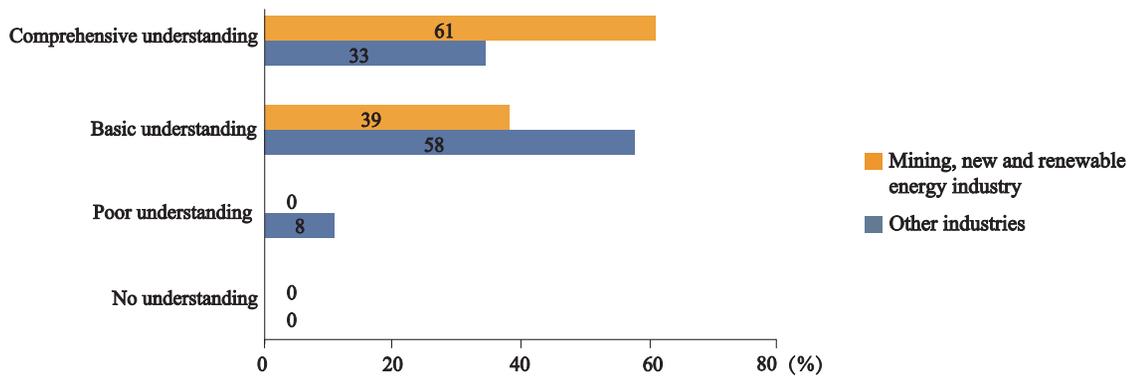


Figure 7.14: Familiarity with industry environmental laws and regulations of the host country<sup>①</sup>

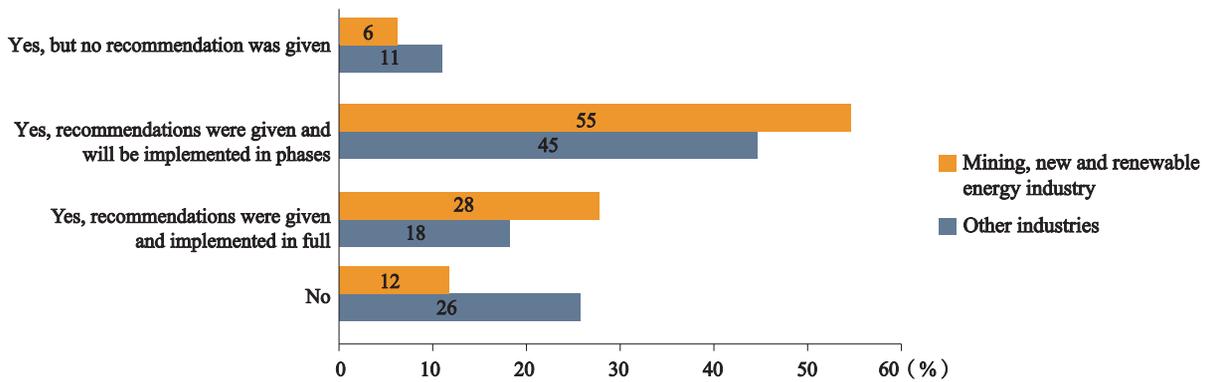


Figure 7.15: Third-party environmental impact assessment of overseas projects

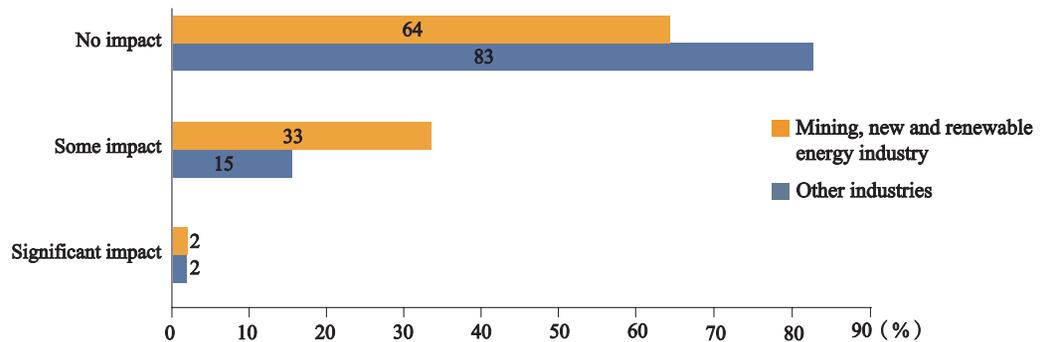


Figure 7.16: Impact of companies' overseas operations on local biodiversity conservation

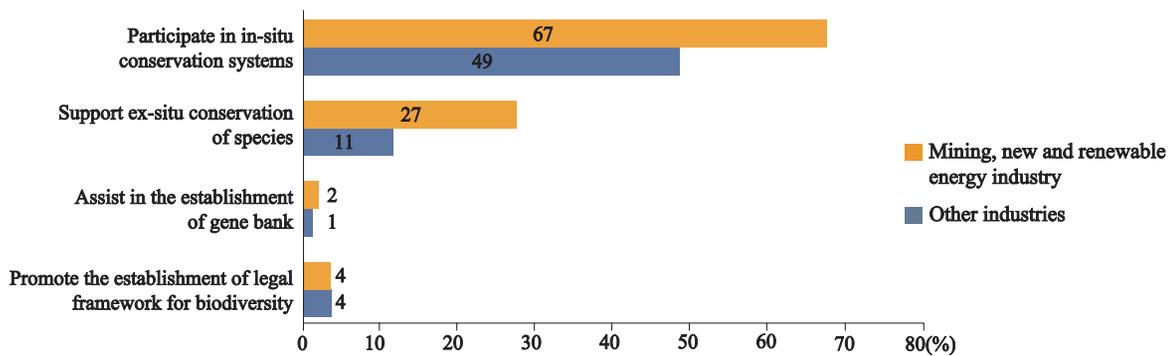


Figure 7.17: Measures taken in overseas operations for local biodiversity conservation

① “Other industries” includes all companies other than those exclusively engaged in mining.



The following are two case studies, one is about China Nonferrous Metal Mining (Group) Co., Ltd's efforts in building a green circular economy in the process of mining in Zambia, and the other is about ICBC Financial Leasing CO., Ltd advocating the "green leasing" model, both serves as a valuable example in overseas environmental protection practices for the Chinese companies.

### Case Study 8: CNMC's efforts in building a green circular economy in Zambia

Established in 1983, China Nonferrous Metal Mining (Group) Co., Ltd. (CNMC or the "Group") is a large central enterprise under the supervision of China's State-owned Assets Supervision and Administration Commission. The company is mainly engaged in non-ferrous mineral resources development, construction and related trade and services and plays a leading role in the internationalization of China's nonferrous metals industry.

Zambia is one of the key investment areas for CNMC. In 1998, CNMC entered the Zambian market by acquiring the Chambishi copper mine in Zambia. Currently, CNMC has invested in 14 companies in Zambia, including the Zambia-China Economic and Trade Cooperation Zone; all of them have up to 85% of local employees on average. To date, the Group has invested more than \$2.6 billion in Zambia, paid nearly \$300 million in taxes, created 10,000 local jobs and has made \$20 million of contributions. All of these efforts are aligned with CNMC's strategy of fostering "Zambia-China partnership for common development".

#### • Compliance with local environmental laws and regulations

Zambia has abundant natural resources and beautiful scenery. Since entering the Zambian market, CNMC has always attached great importance to environmental conservation. In strict accordance with the relevant provisions of the *Environmental Protection and Pollution Control Act* of Zambia, CNMC set up a safety and environmental protection department dedicated to environmental management, and employed a qualified environmental officer to take charge of related work. CNMC established a long-term management mechanism that focuses on prevention, conservation, and integrated environmental control.

#### • Building a green circular economy

The circular economy is an economic growth model in line with the concept of sustainability and the principle of "usage reduction, recycling and creation of resource", which centers on the efficient use and recycling of resources and emphasizes low consumption, low emissions and high efficiency (illustrated by the figure below). When establishing and investing in companies in Zambia, CNMC has taken into account the synergies between the upstream and downstream industries and integrated them into a recycling chain, so as to improve efficiency, reduce waste discharge and build a green circular economy. The copper concentrates produced by NFC Africa Mining Plc. (NFCA) and CNMC Luanshya Copper Mines, Ltd. are transported to copper smelting companies for smelting; mine tailings are used as raw materials by Chambishi Copper Smelter (CCS); and waste rocks are turned into building materials for construction works in the Zambia-China Economic and Trade Cooperation

Zone and the new projects at Luanshya or sales to local businesses to alleviate the local shortage of building materials. In addition, copper smelting companies and CCS have worked together to complete a project for recycling of low concentration waste acid, which enables the recycling of waste acid from the sulfuric acid plant and solves the difficult problem of waste acid treatment that is common among copper smelters. These circular economy initiatives have also produced remarkable results in energy conservation and emission reduction. For example, in 2011, the company achieved an internationally leading energy consumption rate of 182.34 kg of standard coal equivalent per metric ton of blister copper. Meanwhile, overall productivity has also been improved.

Figure: Diagram of CNMC's green circular economy

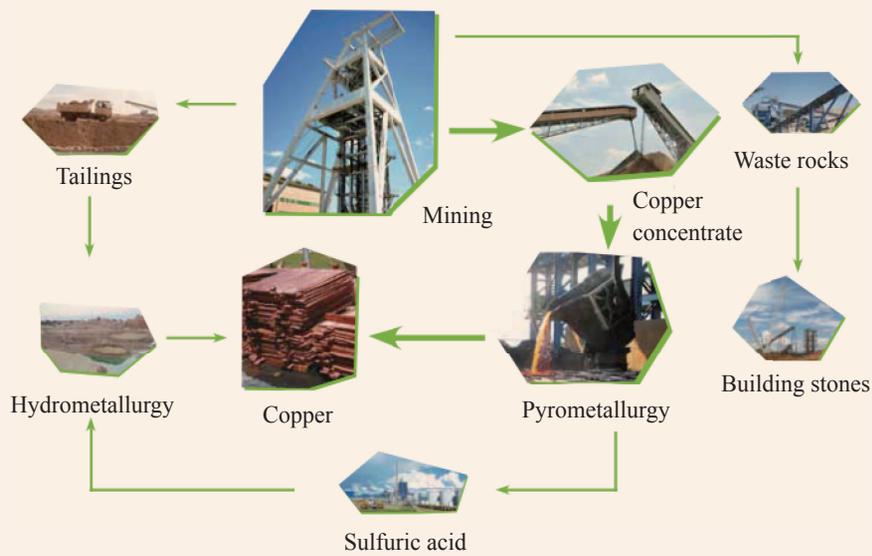


Table: Control and treatment of pollution sources in CNMC's green circular economy

Pollutant	Result	Benefit
Sulfur dioxide in flue gas	SO <sub>2</sub> capture rate of above 90%, which will be raised to 99.96% with the introduction of the newer generation of sulfuric acid treatment equipment	Stable production of high quality sulfuric acid products
Flue gas heat	100% heat recovery from melting, blowing and smelting gases	Annual power generation of 31000 MWh from heat recovery, accounting for 18% of the total electricity consumption of the plant
Waste acid	Compliance with the most stringent requirements of environmental protection policy	Waste gypsum residues after neutralization are sold at low prices to local cement plant as raw material
Soot	Reduced soot pollution	Recovery of bismuth
Slag	Increased recovery of copper and cobalt	Higher production of copper and cobalt

### Case Study 9: ICBC Financial Leasing Co., Ltd Advocating the “Green Leasing” Model

Founded on 28 November 2007, ICBC Financial Leasing Co., Ltd (ICBC Leasing) was originally designated by the State Council as a pilot and later approved by the China Banking Regulatory Commission (CBRC) to become China’s first financial leasing company affiliated with a bank. It is a wholly-owned subsidiary of the Industrial and Commercial Bank of China (ICBC). Thanks to unsparing efforts over the past 8 years, ICBC Leasing has now grown to be one of the most profitable and innovative leasing companies with the largest capital base and unparalleled market influence. Committed to its “professional, market-oriented and international” strategy, the company is now engaged in prospering operations in 23 countries and regions.

ICBC Leasing regards it indispensable to manage environmental risk and fulfill corporate social responsibility (CSR) when extending credit and leasing equipment. In growing its business, it has been trying to integrate risk concerns into all its decisions and operations. To this end, it has been committed to Green Leasing by supporting clean energy, including wind power, hydropower, solar power, etc., and contributing to energy conservation and emission reduction. As a forerunner in the leasing industry, ICBC Leasing has become an inspiration to its peers by building itself into a responsible player.

#### • Growing business in clean energy equipment

ICBC Leasing has made enormous efforts to support the development of clean energy and grow its business at the same time. Nearly 50% of its equipment leased to new projects has been put into clean energy, including wind, solar, nuclear, hydropower and natural gas power generation. Clean energy’s rise in prominence on ICBC Leasing’s balance sheet has marked the company’s progress in clean energy equipment business.

#### • Introducing EPC to support environmental stewardship

Energy Performance Contracting (EPC) is an innovative financing technique to facilitate energy conservation. The energy conservation service contract between ICBC Leasing and its clients, or the users, allow the latter to pay for the cost of installing conservation measures with savings from reduced energy consumption. ICBC Leasing has been an ardent advocate of EPC to “going global” Chinese enterprises, strengthening effectiveness of energy conservation (with professional techniques). EPC has been able to reduce cost and risk for the users, accelerate returns for investment and improve cash flow. Thus, by controlling energy cost and environmental impact, an enterprise is able to be more responsible and competitive.

Building on its success in marketing and leasing clean energy equipment, ICBC Leasing will continue its efforts to expand its business in unconventional energy. By managing environmental risk and honoring its Green Leasing commitment, the company hopes to become a leader in this field.

• **Construction**

Our survey shows that the Chinese companies in the construction industry outperform those in other industries in terms of third-party environmental impact assessment: 87% of construction companies have carried out third-party environmental impact assessment and 60% said that they would gradually implement all recommendations from the assessment. However, Chinese construction companies need to improve their awareness of biodiversity impacts and measures for biodiversity conservation as they are currently below average when compared to other industries.

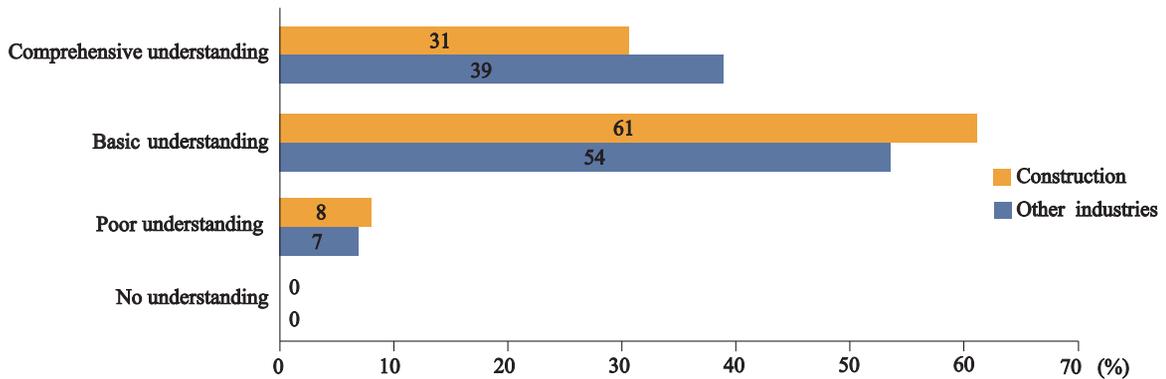


Figure 7.18: Familiarity with industry environmental laws and regulations of the host country

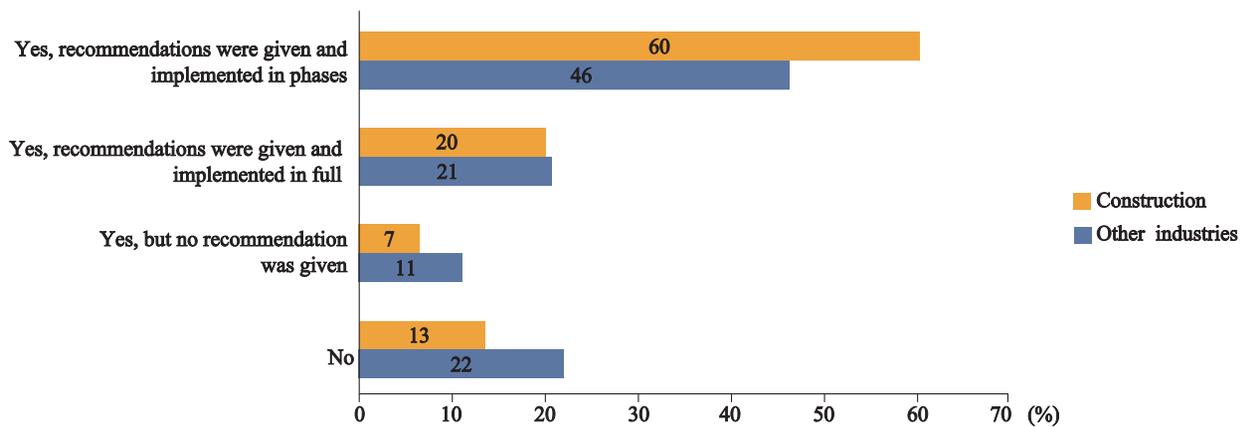


Figure 7.19: Third-party environmental impact assessment of overseas projects

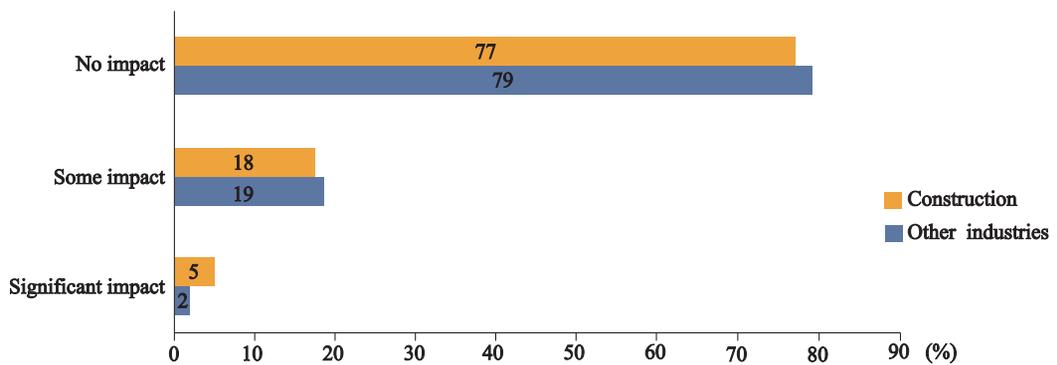


Figure 7.20: Impact of companies' overseas operations on local biodiversity conservation

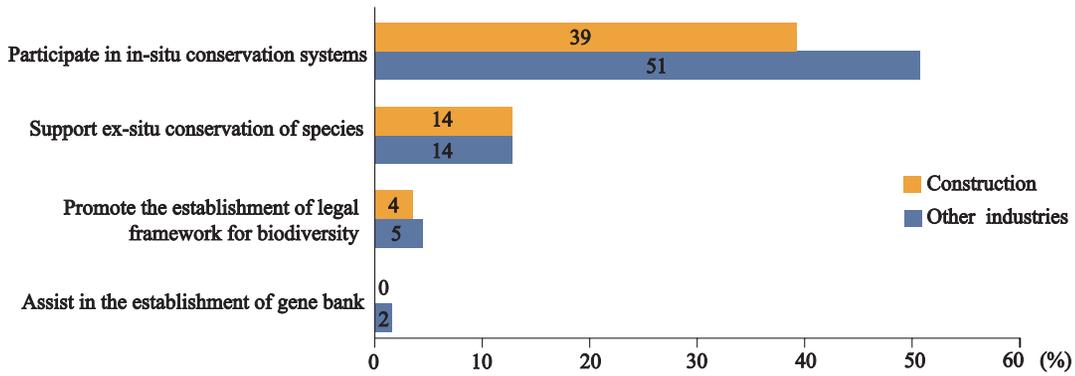


Figure 7.21: Measures taken in overseas operations for local biodiversity conservation

• Agriculture, forestry, fishery and animal husbandry

The survey shows that the Chinese companies engaged in agriculture, forestry, fishery and animal husbandry have a below-average understanding of the industry environmental laws and regulations of the host country than those in other industries. In terms of numbers, 21% of agriculture, forestry, fishery and animal husbandry companies have a “comprehensive understanding”, which is below the average of 39% in other industries. 66% of the companies have “basic understanding”, which is higher than the average of 54% in other industries. 66% of the companies have “basic understanding”, which is higher than the average of 54% in other industries. This shows that the industry needs to develop a better understanding of local laws. In addition, Chinese companies in this industry have a relatively clear understanding of their potential impact on the biodiversity of the host country, and are involved in efforts relating to the in-situ conservation of local biodiversity. It is noteworthy that the percentage of agriculture, forestry, fishery and animal husbandry companies carrying out third-party environmental impact assessment overseas is lower than the average in other industries: 55% versus the much higher average of 78% in other industries.

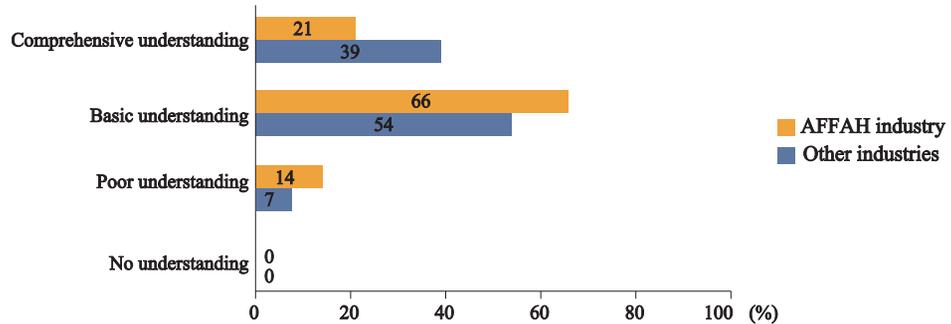


Figure 7.22: Familiarity with industry environmental laws and regulations of the host country

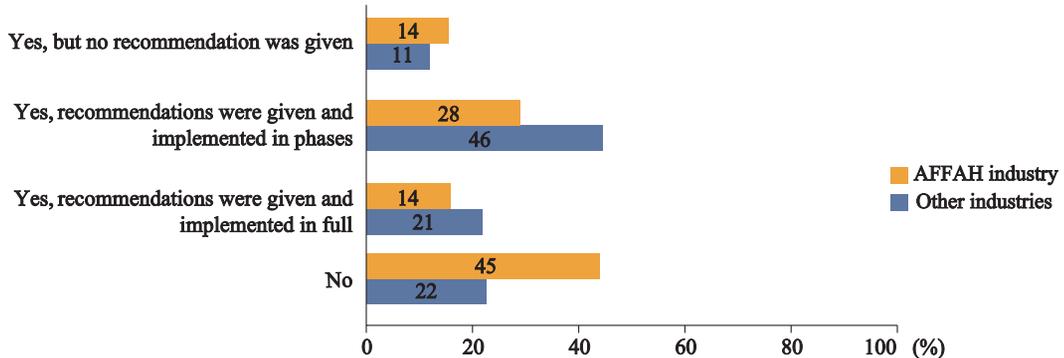


Figure 7.23: Third-party environmental impact assessment of overseas projects

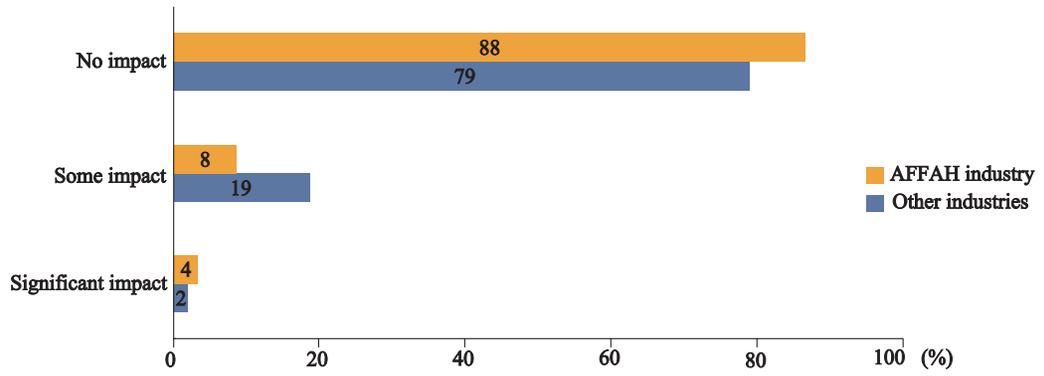


Figure 7.24: Impact of companies' overseas operations on local biodiversity conservation

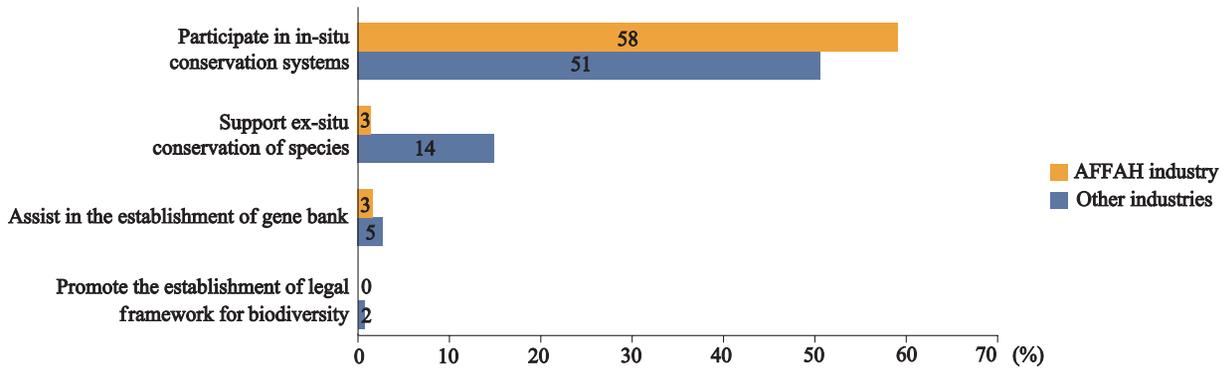


Figure 7.25: Measures taken in overseas operations for local biodiversity conservation

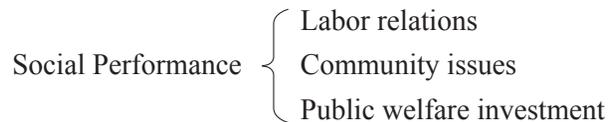


## VIII. Social Performance

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Companies should respect the rights of their employees, community residents and other stakeholders in addition to paying attention to their profit margins. Harmonious labor relations and communities form solid foundations for the long-term sustainability of companies in the host country. A growing number of Chinese companies have come to understand the significance of good social performance to their long-term business interests.

Based on results from the questionnaire and case studies, this chapter of the Report seeks to analyze the social performance of overseas Chinese companies according to the following three dimensions.



### 1. Labor Relations

#### 1.1 Challenges in overseas labor relations

Chinese companies are faced with a plethora of complex challenges overseas in terms of labor relations, including direct challenges relating to stakeholder rights as well as indirect challenges including cultural differences. Survey results show that as Chinese companies expand their overseas operations, cultural differences have become the most prominent issue. Other standout issues include (in order of severity) a deficit of understanding of local culture and customs, compensation and benefit disputes, and inexperience in working with unions. In addition, Chinese companies are also facing significant challenges regarding training, and protection of the rights and interests of their labor force (See Figure 8.1).

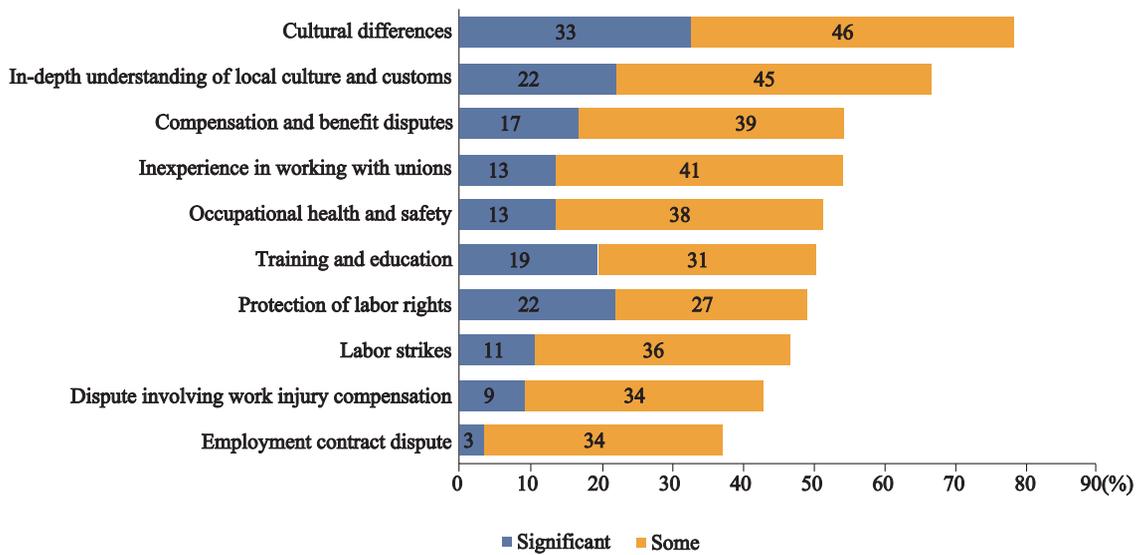


Figure 8.1: Major challenges in overseas labor relations confronting Chinese companies

### 1.2 Building harmonious labor relations

According to survey results, Chinese companies have a relatively well-rounded understanding of how to establish harmonious labor relations overseas. They prioritize labor laws and regulations, facilitate the integration of Chinese and local employees, and strive to understand and respect local cultures and customs. Replicating the managerial experience of other multinationals is also regarded as vital to the cultivation of harmonious labor relations; as is understanding the role of local labor organizations, and forming effective communication mechanisms. Notable is that Chinese companies have yet to devote due attention to a number of measures which can effectively improve labor relations. These include: providing more training and promotion opportunities for local employees, as well as increasing the ratio of local employees in management teams (See Figure 8.2).

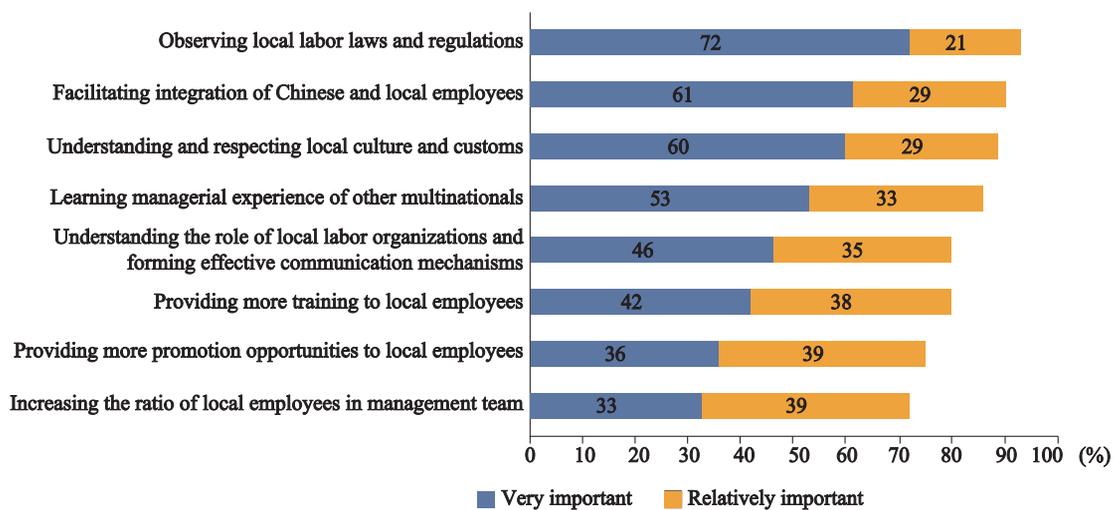


Figure 8.2: Priorities given to building harmonious labor relations



### 1.3 Creating an equal recruitment system

Survey results show that Chinese companies overseas exhibit a satisfactory overall performance in providing equal opportunities to Chinese and local employees. Specifically, 73% of the companies surveyed have established equal opportunity systems concerning compensation and benefits; 70% have adopted a similar system in recruitment processes; and 62% in terms of training and promotion opportunities.

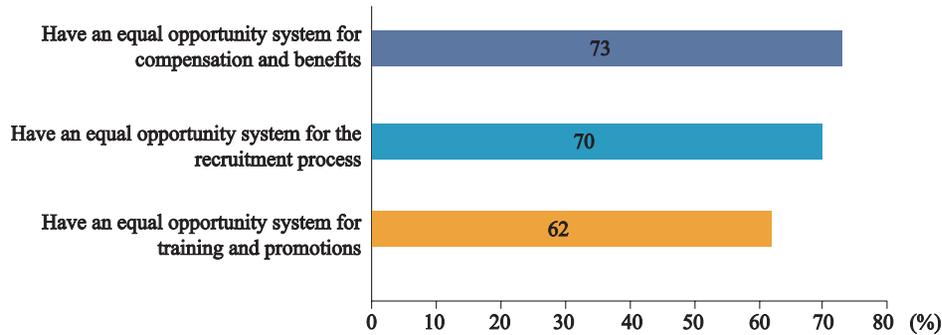


Figure 8.3: Equal opportunity between Chinese and local employees in overseas branches

To find out how well Chinese companies implement equal opportunity systems, further analysis on the following questions is conducted.

(1) Can local employees become management team members within Chinese companies?

169 of the 254 companies surveyed provided the precise number of local employees in their management teams. The majority of these companies have fewer than 20 local employees in the management team, with over half of the companies employing no more than 2. Based on interviews and in-depth analysis, we find that the number of local managers in Chinese enterprises can be attributed to the following factors. First, the size of the company: this is the determine factor of the number of local managers employed. Second, local managers in key positions: despite efforts made by Chinese companies in localizing their human resources by recruiting local employees for managerial and technical positions (e.g., sales managers, account managers, etc.) with a view to leveraging their familiarity with local networks, language and culture to provide better services to customers, a number of key positions, such as those relating to finances and procurement are still largely reserved for Chinese employees in order to control internal risks. Third, the education levels of local residents. And fourth, the level of globalized management of the Chinese company: further analysis of survey responses shows that for companies that have established globalized management systems, 98% of them have formulated equal employment opportunity rules.

(2) Have overseas Chinese companies taken gender equality into consideration in recruitment processes?

138 of 254 respondents provided the number of female employees in their operations overseas, which provides insufficient information to draw a conclusive result. Although the majority of respondent companies reported fewer than 20 female employees, the average percentage of female employees in such



companies totaled 27%<sup>①</sup> (See Figure 8.4)

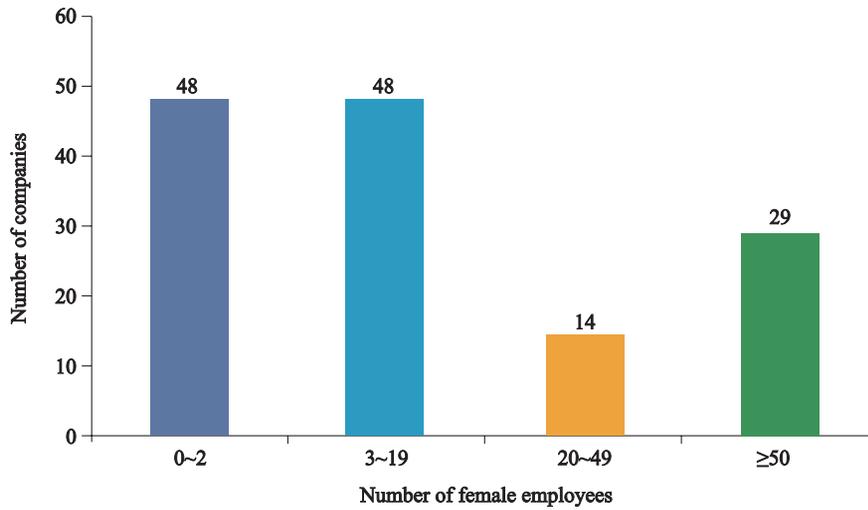


Figure 8.4: Number of female employees in overseas Chinese companies

Analysis of the number of female employees alongside industry type reveals that agriculture, forestry, fishery and animal husbandry, manufacturing and other service industries have a higher percentage of female employees, while the construction industry (allegedly due to the demanding physical labor involved) has the lowest. Nevertheless, the variation between industries is slight (See Table 8.1).

Table 8.1: Average percentage of female employees by industry

Average Percentage of Female Employees	
Agriculture, forestry, fishery and animal husbandry	27%
Manufacturing	27%
Mining, new and renewable energy	25%
ICT	25%
Wholesale and retail	26%
Construction	23%
Other service industry	27%

Breaking down the average percentage of female employees by region shows that Chinese companies employ a higher percentage of female workers in North America and Oceania than in Africa, where gender imbalance among employees is more pronounced. This could be attributed to the following factors. First, Chinese companies in Africa are primarily engaged in mining and construction and regard the hard physical labor typical of these industries unsuitable for women. Second, host countries in developing regions such as Africa, Asia, Latin America and the Caribbean have less strict gender equality requirements regarding the employment of staff. Third, education level relates directly to employment,

<sup>①</sup> Data are based on valid responses to the following two questions (138 companies provided valid answers to both): (1) Total number of employees overseas (141 companies responded); (2) Number of female employees overseas (139 companies responded).

and female workers in less developed regions often receive less education compared with their male counterparts. Fourth, females in certain regions tend not to join Chinese companies due to local traditions and customs.

Table 8.2: Average percentage of female employees of Chinese companies by region

Average Percentage of Female Employees	
Africa	20%
South America	24%
Europe	25%
Asia	27%
Oceania	30%
North America	31%

### 1.4 Occupational health, work safety and wage security

- **Occupational health management systems**

According to our data, 69% of surveyed Chinese companies have established sophisticated or fairly sophisticated occupational health management systems and can effectively prevent occupational diseases. Some companies have shown their thoughtfulness towards employees by providing incentives for partaking in sport activities, purchasing supplementary travel insurance, and offering counseling services to improve employees’ mental health. However, the remaining 31% of companies are still in the process of establishing or have yet to establish an occupational health management system (See Figure 8.5).

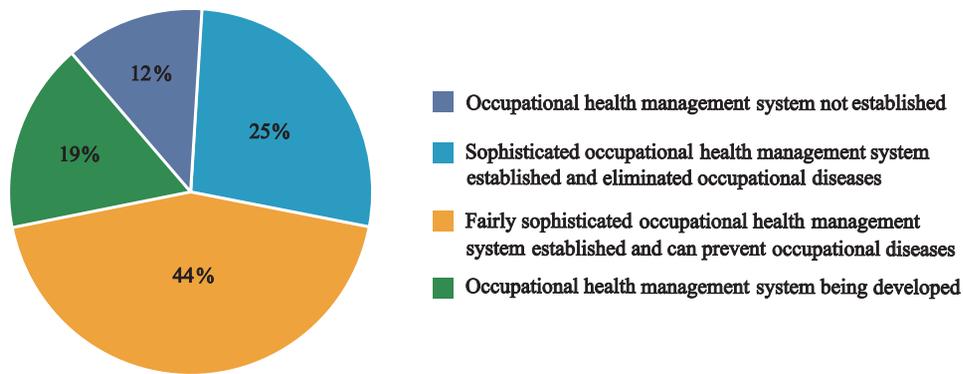


Figure 8.5: Establishment of occupational health management system in overseas operations

- **Safety management systems**

Chinese companies display generally satisfactory results with regard to setting up overseas safety management systems; close to 50% of companies have not had any accidents. As shown in Figure 8.6, 49% of surveyed companies claim to have set up highly sophisticated safety management systems and

prevented all accidents and 37% have established fairly sophisticated safety management systems to keep accidents in check. However, 8% and 6% of companies are only in the process of setting up such systems or have yet to set up such systems, respectively. The Chinese government promulgated the *Circular on Strengthening Safe Production Supervision of Chinese Enterprises Overseas* (2005), the *Administrative Regulations on Contracting Foreign Projects* (2008) and the *Circular on Carrying out Special Inspection on Safe Production Governance of Chinese Enterprises Overseas* (2013), setting forth strict rules and regulations with regard to the establishment of safety management systems, employee safety, and contingency mechanisms of Chinese companies in their overseas operations. These regulations, which have been proved effective with their specific regulatory and penalty measures, demonstrate the significance of top-down supervision and legislation to improving the performance of companies.

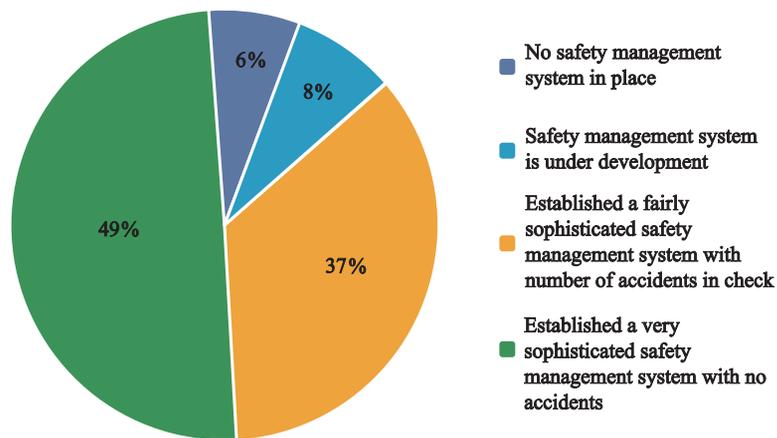


Figure 8.6: Establishment of safety management system

• **Remuneration and benefits systems**

Improving employee remuneration and benefits is key to ensuring good labor relations. According to our survey, Chinese companies overseas have established the following measures to safeguard employee remuneration and benefits (Figure 8.7): well-functioning remuneration management systems, on-time wage payments (adopted by 75% of the surveyed companies), overtime payment in accordance with law, complete incentives mechanism (64%), and paid leave (51%).

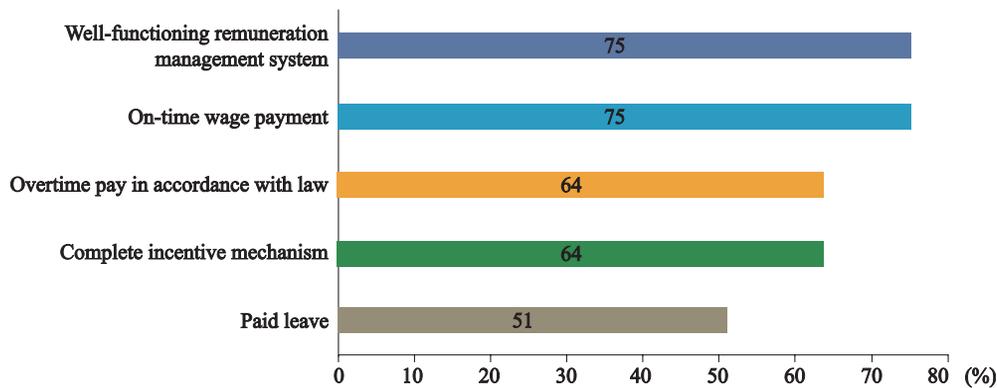


Figure 8.7: Remuneration and benefit measures of Chinese overseas companies

In the following case study of CRCC China-Africa Construction Limited, the company's commitment to build harmonious labor relations in Nigeria serves to illustrate the efforts made by Chinese overseas companies in this field.

### Case Study 10: CRCC China-Africa Construction Limited seeks harmonious labor relations in Nigeria

After expanding into the Nigerian market in 1981, China Railway Construction Corporation Limited (CRCC) duly registered and established the CRCC China-Africa Construction (Nigeria) Limited (CRCC Nigeria) in 1996. As a wholly-owned subsidiary of CRCC, CRCC Nigeria's main businesses vary from the development of the Lekki Free Trade Zone to engineering contract projects and commercial logistics. For nearly 30 years since its establishment, CRCC Nigeria has been committed to localizing its businesses and integrating into local communities, aiming to ensure both corporate sustainability and local welfare improvement.

- **Abiding by local laws and regulations, respecting local culture and customs**

First, CRCC Nigeria has strictly complied with labor laws and paid all wages and bonuses on time. The company also respects the diverse customs and beliefs of local communities by giving its Muslim and Christian employees vacation days to observe key religious holidays (Eid al-Fitr, Eid al-Adha, Christmas, New Year, etc.). Meanwhile, the company also honors its business partners and key clients with livestock or flower baskets before Christmas as per local tradition. Secondly, CRCC Nigeria provides local employees with convenient, clean, and centralized prayer rooms as well as accommodation in some instances. For instance, during the construction of Abuja-Kaduna Railway project, make-shift mosques were built at both the head administrative field office and Kaduna field camps. Thirdly, Muslim employees are given proper respect and accommodation. During Ramadan, Muslim employees enjoy equal pay with other employees so that wage-based workers are not penalized for their reduced productivity, while the head administrative office in the north region allows employees to clock-in and out at flexible hours to pray in batches.

- **Prioritizing the recruitment and training of local employees**

CRCC Nigeria explicitly requires a higher than 10:1 ratio of local to Chinese employees in the quotation of every project and a 25:1 or higher ratio in on-site construction works. By November 2014, the company had hired 10,000 local employees, including a number of senior and female workers, from various professional and technical fields. CRCC Nigeria also places great value on equal and standardized staff management, and has assigned local employees to senior management positions. For instance, as the project involving the construction of six airport terminals went on, the ratio of Chinese to Nigerian employees reached to 1:15. In addition, CRCC Nigeria emphasizes proper incentives for local employees. As an example, any local employee working on projects in Abuja for over a year and has furthered his or her professional skills through self-study can enjoy an average salary enhancement of 8%-12%.



• **Implementing long-term CSR mechanism to aid local development**

Dedicated to aiding local social and economic development and fulfilling due social responsibility, CRCC Nigeria has contributed over RMB 1 million (approximately US\$150,000) to the Nigerian governments and states in forms of charitable donations, construction aid for roads and schools, school supplies and sports equipment. Meanwhile, the company has also been very supportive of the various charitable programs organized by the Nigerian government, raising money for disability and survivor benefits and relief funds, disease prevention and control, and education for women. During the Ebola outbreak, CRCC Nigeria made efforts to raise awareness surrounding the prevention and control of Ebola, and donated epidemic prevention supplies to people in Lagos.

## 2. Community Issues

### 2.1 Third-party social impact assessment

According to our survey, a growing number of Chinese companies “going global” have come to realize the value of social impact assessments on the sustainability of their overseas projects. About 51% of these companies are now inviting a third party to conduct a social impact assessment on a project before its initiation. However, the implementation of the recommendations from these assessment reports needs to be strengthened. Survey shows that a mere 10% of companies have made rectification in response to all the recommendations; 28% are implementing the recommendations in phases, while 13% have failed to implement any. Furthermore, it should be noted that 49% of the companies are still yet to conduct third-party social impact assessments, demonstrating a general lack of awareness among companies with regard to the significance of social impact assessments to their long-term development and prevention of social risks (See Figure 8.8).

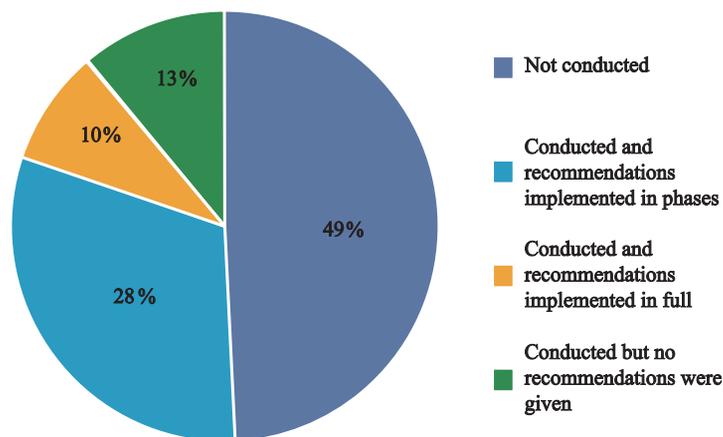


Figure 8.8: Use of third-party social impact assessment by Chinese companies for overseas projects





## 2.2 Causes for community issues

According to our survey, Chinese companies generally believe that unfamiliarity with local culture and customs (53%), lack of engagement with local communities (38%), cultural differences (38%) and misconceptions of Chinese companies held by local residents (34%) are the primary causes of community issues. By contrast, most Chinese companies claim to be little affected by the adverse impact of business operations on the lives and work of local residents, unfavorable media coverage or disputes resulting from expropriation of land (See Figure 8.9).

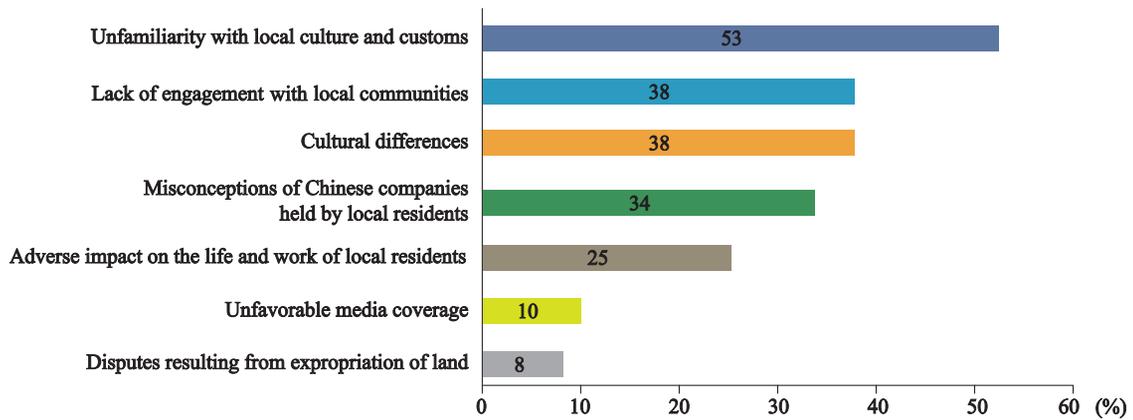


Figure 8.9: Social issues facing Chinese overseas companies

## 2.3 Approaches for establishing harmonious communities overseas

A growing number of Chinese companies are becoming aware of the significance of harmonious communities to business operations. Moreover, these companies are drawing from international experiences to improve community relations. According to our survey, the majority of companies believe the most effective approaches for managing community relations are: enhancing communications with various community stakeholders (65%), developing a better understanding of potential community issues and risks when making investment decisions (59%), strengthening interaction with local residents (40%), and contributing to public welfare projects to build a positive corporate reputation and image (37%) (See Figure 8.10).

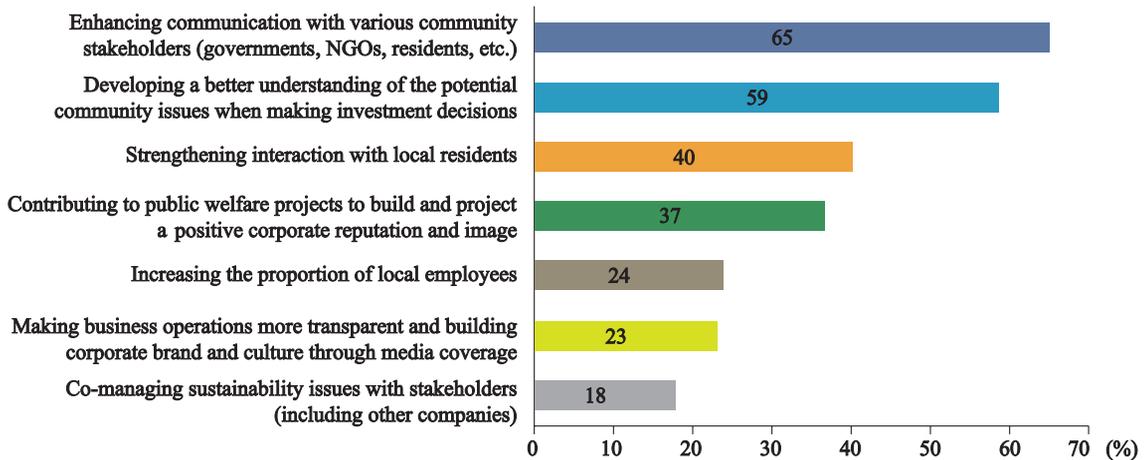


Figure 8.10: Key approaches to building harmonious communities





The particular community issues facing a Chinese company will depend on the industry it operates in. The following case studies zoom in on the unique approaches and methodologies adopted by China Power Investment Corporation and China Minmetals Corporation in working with communities. These examples will offer some insights into Chinese overseas companies.

### Case Study 11: State Power Investment Corporation assists social development in Myanmar

State Power Investment Corporation (SPIC), newly established through the merger of China Power Investment Corporation and State Nuclear Power Technology Corporation in June 2015, is one of the Global Fortune 500 enterprises. SPIC is the only energy conglomerate in China that is involved in hydropower, thermal power, nuclear power and new energy, with approximately 140,000 employees and 7 members of listed companies. SPIC has its presence in 24 countries (regions) such as Japan, Turkey, Brazil, Myanmar and Guinea.

The Confluence Region Hydropower Project is currently the biggest overseas hydropower investment project by a Chinese company. The project, which is situated in the Kachin State along the tributaries of the Irrawaddy River in Northern Myanmar, required over US\$30 billion of investment and a construction period of 15 years. The project will feature seven hydroelectric dams in a cascading arrangement as well as one plant power generating plant, with a combined installed capacity of 21,500 MW and an annual power-generation capacity of 110 TWh. This new source of power will be highly appreciated. According to a report by the Asian Development Bank (2012), the net power output of Myanmar (total power production minus export) could not meet its current domestic demand. To compound the matter, the power demands of the country stood at 12.36 TWh in 2012-2013 and are expected to grow to 25.68 TWh in 2018-2019. Evidently, the Myitsone Dam at the confluence of the Irrawaddy River, which is the 7<sup>th</sup>-stage dam of the Confluence Region Hydropower Project, will be a key project for closing the significant gap in energy supply and demand. The Myitsone Dam is a BOT (Build-Operate-Transfer) project and will be transferred to Myanmar at the end of the concessional term. Its energy output will first be used for meeting domestic power demands before any excess is sold to adjoining countries. In addition to generating power, the hydropower plant will enhance flood-resistance capacity at the headwaters of the Irrawaddy River, facilitate the development of the water transportation industry, optimize infrastructure, bring considerable direct economic benefits to local residents and provide as many as 40,000 jobs to the region. Because the development of the Myitsone Dam requires the displacement of 18,000 local residents, the implementation of the project hinges on the resettlement of local residents and on community building. Upstream Ayeyawady Confluence Basin Hydropower Company (Ayeyawady Co.) – a joint-venture of SPIC in charge of the Myitsone Dam Project – strictly abides by policies and standards implemented by the Myanmar government, observes internationally accepted practices, and draws from successful relocation efforts by the World Bank, the Asian Development Bank and other Chinese hydropower development projects. By assuring local



residents that they will be relocated and that their living standards will not decline, Ayeyawady Co. has successfully relocated around 2,146 local residents.

• **Conducting door-to-door surveys on physical indicators**

Prior to resettlement initiatives, Myanmar’s Department of Hydropower Implementation organized and led a special working group composed of staff from the Kachin State government, the SPIC, the AWC and the Changjiang Survey, Planning, Design and Research Co., Ltd. to carry out a survey on physical indicators and living standards of each affected resident during home visits, with results confirmed by signatures from the head of each household. The survey results are therefore recognized by all stakeholders.

• **Building resettlement villages and supporting facilities in accordance with international standards**

Prior to relocation, approximately 90% of affected residents lived in simple cottages with hay roofs. Ayeyawady Co. selected two resettlement sites – Aung Min Thar and Maliyan – which were noted for their favorable geological conditions, flat terrain, convenient transport systems, easy access to water and pleasant environment, as the location of its 414 two-story brick-and-wood settlement houses with yards. Resettlement villages also featured newly built hospitals and clinics. With 35 in-patient hospital beds and modern medical equipment, the hospitals possess some of the best infrastructure and facilities in Northern Myanmar and have treated around 15,000 patients since 2010. Ayeyawady Co. has also built two kindergartens, three primary schools and one secondary school with brand new classroom and sports facilities, attracting resettlers as well as students from neighboring villages. At present, around 1,460 students are enrolled, benefiting from free textbooks, uniforms and stationery. In addition, a series of supporting facilities including post office, police station, administrative offices, fire station, library, hostel and markets have also been set up to improve community functions; to accommodate the religious needs of resettlers, Ayeyawady Co. has also constructed two Christian chapels, two Catholic churches, two Buddhist temples, one Kachin cultural center and one ceremonial temple. Over 200,000 people have visited these religious and cultural facilities since their establishment.



Old house before resettlement



New house after resettlement



• **Enhancing communications with local communities to gain local support**

Upon setting foot in the region in 2006, SPIC staff members first paid visits to the elders of the six Kachin tribes to seek their opinions on the project. During project implementation, SPIC staff also prioritized the employment of local residents by providing them with good working environments and skills training. Even after the Myitsone Dam Project was temporarily suspended, SPIC continued to devote itself to many community aid programs in order to interact and build trust with local residents.

• **Continued support for resettlement villages during project suspension**

Similar to other large-scale dams under planning or construction around the globe in recent years, the Myitsone Dam Project was met with suspicion and objection. Due to some concerns, in September 2011 the Myanmar government announced a temporary suspension of the construction of the project and took over resettlement villages from Ayeyawady Co.

Despite the adverse climate, Ayeyawady Co. continued to provide the best resources to resettled residents and resettlement villages. The company paid the villagers' electric bills, and honored its original plan by completing the installation of 10KV power lines. As of 2014, the company had provided the two resettlement villages with 4,556 bags of rice (approximately 227 metric tons). During the flood season in 2012, the company promptly repaired roads, dykes and water pipes damaged by the flood to ensure living standards of relocated residents remained unaffected. Meanwhile, to improve local education, the company organized the "Azalea" donation for schools in the resettlement villages and set up the Irrawaddy River Hydropower Scholarship in January 2013 to reward top students and help underprivileged students – this scholarship had been granted three times by the end of 2014. To improve the local infrastructure, Ayeyawady Co. donated money and supplies to local schools, hospitals and poverty-stricken villages on many occasions, set up an earthquake monitoring website and hydrology website, and built the first cement road for the local community. To help relocated residents start farming in resettlements, Ayeyawady Co. cleared 440 acres of land for farming and provided each household with funds to tend the land, 30 KG of seed for rice and 50 KG of fertilizer. To date, Ayeyawady Co. has invested over US\$25 million into the Myitsone Dam Project to set up five resettlement villages housing 2,146 people from 410 families.

• **Increasing project transparency**

Opponents of the project maintain that the project has design flaws and falls short with regard to environmental protection measures. There are also disputes regarding the distribution of the power generated by the Myitsone Dam. Ayeyawady Co. says that it did not have chance to explain to local residents the details of the project before it was suspended, not to mention the benefits the dam would bring once completed. At present, the company is actively working with various stakeholders including local government, think tanks, opponents, international organizations, the media and NGOs. At the same time, the company is also working hard to abide by the United Nations Global Compact regarding human rights, labor relations, environmental protection and anti-corruption, inviting heads of states, public organizations and media for field investigation at both construction sites and resettlement



villages. The company hopes that these efforts will increase transparency into its operations and help it harness further understanding and support from stakeholders.



Field trip attended by news reporters

As one of the key stakeholders in any overseas investment, the government of the host country will to balance its social and economic development with environmental protection concerns. Therefore, Chinese companies that make investments should attempt to adopt well-rounded strategies to help local governments achieve this balance, thereby ensuring the timely implementation of their projects. Internally, Chinese companies are advised to improve their internal management systems by enhancing capabilities to avoid causing any significant environmental and/or social negative impacts. Externally, it is imperative for companies to take the initiative to protect stakeholders' right to know and right to participate in (and resolve) any potential conflicts among stakeholders by holding extensive discussions, increasing project transparency and working closely with the local government, civil society and academia. Although both the proponents and opponents of projects will work hard toward their respective goals, the convergence of opinions will take time and effort. This process of holding dialogues and finding common grounds will help decision-makers to continually improve their understanding and management of large-scale hydropower projects, introduce further optimizations to such projects, and press the companies to improve their sustainability performance.

### Case Study 12: Minerals and Metals Group aids development and taps potential of local communities in Laos

As an overseas corporation affiliated to China Minmetals Corporation, Minerals and Metals Group (MMG) has expansive mining operations in Australia, Laos and Democratic Republic of Congo. Among them is the Sepon mine located in Vilabouly District in Southern Laos, noted as one of the poorest and most underdeveloped districts in the country despite its rich mineral resources. The subsequent development of the Sepon mine has contributed greatly to the local economy. Laos' *Socio-Economic Newspaper* reported that between 2003 and 2009, the Sepon mine contributed approximately

8.2% of the GDP of the country and 20% of the national budget, paying US\$430 million in taxes to the government. In its report titled *Utilizing Mining and Mineral Resources to Foster the Sustainable Development of the Lao PDR* released in June 2011, the International Council on Mining and Metals stated that the mining industry had made significant contribution to regional and national development of Laos, with special recognition given to MMG's mining operation in Sepon.

During the exploration and development of the mine, MMG has attached utmost importance to maintaining favorable relations with local communities, safeguarding rights and interests of employees, protecting local environment, respecting local cultures and customs, honoring support from all stakeholders within the community and helping local communities boost their capacity for sustainable development. This comprehensive system for supporting and engaging local communities serves as a role model for the sustainable overseas development of Chinese companies.

• **Setting up community development funds to improve infrastructure**

MMG has set up a Sepon Development Trust Fund within the mining site to manage and operate development projects in local communities. The trust fund contributes US\$750,000 a year to the Vilabouly District on community development programs for public roads, power lines, medical equipment, as well as for promoting local education, tourism, the handicrafts industry and the various agendas of the Lao Women's Union. By 2014, the trust fund had contributed US\$2.90 million to these development projects. A committee consisting of representatives from local communities, provincial government and MMG was set up by the trust fund to determine the use of funds. In 2012, the trust fund had completed 65 initiatives, including the expansion of electricity coverage and the construction of roads, bridges and schools, etc., not only meeting medium-term development goals set by the government but also benefiting a far greater region than the areas closest to the mining operations.

• **Funding education in local communities**

Before Sepon mine was built, the region was both underdeveloped and severely lacking in educational resources. Ever since the mining operations began, MMG has been giving lessons to local residents on mining-related subjects while channeling a large amount of manpower, material, and financial resources into local educational projects to raise the educational standards and potential. In the village of Latdengyai next to the mining site, children had to walk 2.5 kilometers every day to go to school, causing much safety concerns. Back in 2009, the village local community had requested the government to build a primary school in the village, but their wish did not materialize due to funding and teacher shortages. To give local children more accessible and convenient primary education, MMG raised LAK 56 million (about RMB 46,666 or US\$7179) worth of village development fund at the Sepon mine, built the school in 2012 and applied to regional board of education for qualified teachers. At present, 43 students, including 13 girls, are enrolled at the school. In 2013, MMG's Sepon mining operations designed and sponsored the Millennium Education Program, aiming to increase literacy rate among school-age children, provide healthier and more nutritious school meals and improve educational quality. The program has thus far improved school meals in all community schools in

Vilabouly and boosted student attendance rates to 98%.

• **Preserving the cultural heritage of the indigenous people**

MMG has built a cultural museum in the Sepon mining site to display both tangible heritage such as handicrafts as well as intangible cultural heritage including customs and music preserved on close to 400 films. The museum is the local focal point for the long-term and systematic preservation of cultural heritage.

• **Setting sight on improving public health in local communities**

MMG has set the improvement of the health of its employees and local communities as its long-term goal. To this end, MMG works with local medical institutions to provide free medical check-ups and healthcare services to full-time employees at the mine, administered through an on-site clinic. Meanwhile, MMG’s mining operation at Sepon has also sponsored and built the Vilabouly village clinic, and provided funding for community hospitals to upgrade their healthcare services and medical equipment. In addition, MMG has worked with Burnet Research Institute and local government on a mother and infant care initiative to promote better healthcare for families and children. In 2013, MMG invested US\$80,000 into the mining region to jumpstart the R&D of a long-term health program, and provided further funding to Burnet Research Institute to conduct a health survey among local communities, target groups and various stakeholders of the mining operation.

Between 2013 and 2015, MMG pledged US\$1.38 million to the “1000 Day Project” jointly launched in Southern Laos with UNICEF and the Lao Ministry of Health to combat malnutrition among children aged 1,000 days or less. In June 2014, the project entered a new phase and began to distribute nutrients sachets among the populace.

Today, one in three children in the world is plagued by health problems brought on by malnutrition; the malnutrition rate for Lao children under the age of 5 exceeds a staggering 40%. Micronutrient deficiencies are the cause for numerous diseases including anemia, which will lead to cognitive and physical impairments that persist throughout a person’s adult life. To improve children’s health and



Local children enjoying the SuperKid nutrient sachet



reduce malnutrition among children within 1,000 days of birth, MMG and its partners distributed over 4 million “SuperKid” nutrient sachets to over 180,000 Lao children. The sachets contain vitamins and trace elements such as iron and zinc, which will help prevent malnutrition and anemia. The project also provides education and training on aspects of health, nutrition and age-appropriate feeding patterns.

### 3. Overseas Public Welfare Investment

#### 3.1 Overseas donation management system

Our survey shows that only 21% of the companies surveyed have established systems for managing overseas donations. 42% of the companies have plans for developing such systems, while the remaining 37% have yet to establish the system (See Figure 8.11).

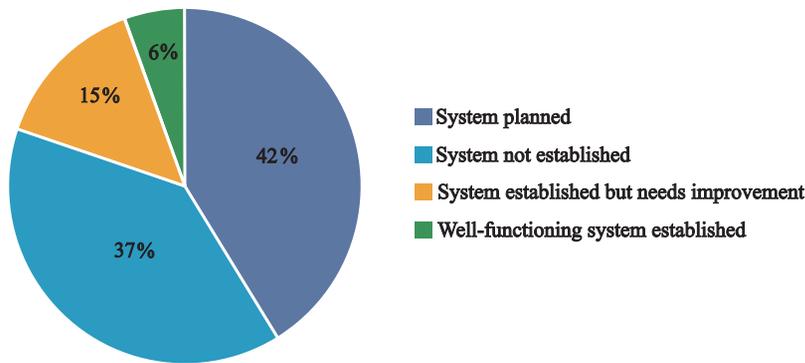


Figure 8.11: Overseas donation management system of “going global” Chinese companies

#### 3.2 Contributions to the social development of overseas communities

Chinese companies typically resort to the following approaches to contribute to the social development of overseas communities: organizing cultural exchanges (50%), participating in local infrastructure projects (36%), offering vocational skill training for local residents (32%), charities for the underprivileged in local communities (28%), and sponsoring local government officials to study development experience in China (21%). The surveyed companies show different preferences for the destination of their donations according to their respective industries and the stakeholders involved (Table 8.3).



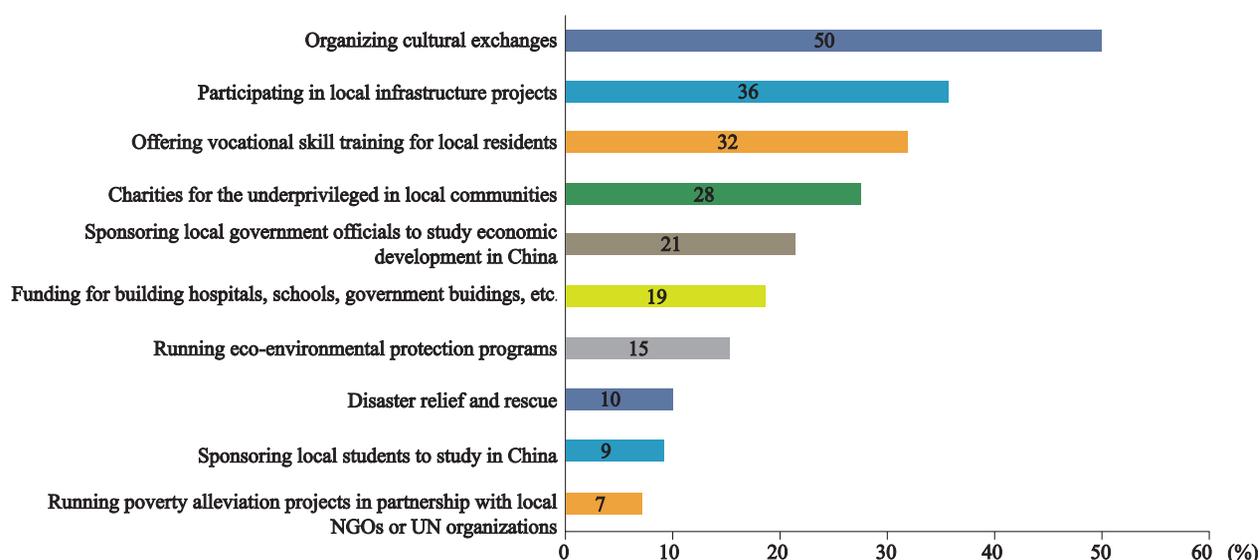


Figure 8.12: Approaches adopted by Chinese companies to contribute to local communities in host countries

Table 8.3: Approaches favored by Chinese companies to contribute to the local communities in host countries by industry<sup>①</sup>

Industry	First Choice		Second Choice		Third Choice	
	Approach	Percentage	Approach	Percentage	Approach	Percentage
Agriculture, Forestry, Fishery, Animal Husbandry	Organizing cultural exchanges	48%	Sponsoring local government officials to study economic development in China	32%	Offering vocational skill training for local residents	29%
Manufacturing	Organizing cultural exchanges	49%	Offering vocational skill training for local residents	38%	Participating in local infrastructure projects	32%
Mining, New and Renewable Energy	Participating in local infrastructure projects	53%	Organizing cultural exchanges	43%	Offering vocational skill training for local residents	39%
ICT	Organizing cultural exchanges	78%	Offering vocational skill training for local residents	33%	Sponsoring local government officials to study economic development in China	22%
Construction	Participating in local infrastructure projects	63%	Funding for building hospitals, schools, government buildings, etc.	40%	Organizing cultural exchanges	38%
Wholesale and Retail	Organizing cultural exchanges	55%	Charities for the underprivileged in local communities	34%	Sponsoring local government officials to study economic development in China	31%
Other Service Industries	Organizing cultural exchanges	51%	Offer vocational skill training for local residents	44%	Participating in local infrastructure projects	35%

① Multiple selections are permitted for this question such that the aggregate percentage may exceed 100%.



Lenovo's active participation with communities in the U.S. provides an example for other companies.

### Case Study 13: Lenovo Group Contributing to U.S. Communities

As a top PC maker, Lenovo Group Ltd. (Lenovo) provides exceptionally engineered PCs and mobile Internet devices for customers in over 160 countries around the globe. It has been running research centers in Beijing, Shanghai and Shenzhen in China, Yamato in Japan, São Paulo in Brazil and Raleigh, NC, in the United States. Lenovo is a Fortune 500 company, named one of Fortune "World's Most Admired Companies" and included in Corporate Knights' 2015 Global 100 Most Sustainable Corporations in the World (Global 100) Index.

In its operations in the U.S., Lenovo prioritizes sustainability by taking a responsible approach while growing business. Through one attempt after another, it has integrated into local communities and worked with relevant organizations to support education, community service, student innovation, etc.

- **Brining technology to the youth**

With the goal of empowering young people with technology and cultivating future leaders, Lenovo donated technology and build partnerships with various nonprofit organizations, including Boys & Girls Clubs, YMCA, Kenan Fellows Program for Curriculum and Leadership Development and Kramden Institute (a nonprofit that refurbishes used PCs for students without access to a computer in their homes).

- **Empowering underprivileged children in the city**

Lenovo partnered with the Mark Wahlberg Youth Foundation in the U.S. and donated 250 IdeaPad Yoga tablets, hoping to support underprivileged city children in reaching their full potential. The partnership aspires to help children whose dreams and passions are limited due to financial circumstances by providing them with opportunities that allow them to see the value of education and plan for the future.

- **Developing mechanisms for employee charitable donation**

Since 2005, Lenovo employees in the U.S. have pledged approximately \$4.1 million through an employee charitable donation initiative, the Lenovo Employee Care Campaign (LECC). In addition to the 50-percent match for employee donations (for every dollar donated by an employee, the company donates 50 cents), Lenovo invested significantly in expanding the program by allowing employees the opportunity to make donations at any time, and Canadian employees are also invited to join the program. It also announced a new benefit whereby each employee is provided with eight-hour paid time annually to participate in a voluntary community service of their choice. Moreover, Lenovo employees donated 28,000 items for military Care Package drives, collected 2,700 pounds of food for food bank drives and provided over 12,000 items for school supply drives.

In 2013, Lenovo was honored with President Obama's Call to Service Award for its community service in support of Operation: Coming Home and the United Services Organization (USO).

In 2014, Lenovo's North American employees volunteered more than 7,500 hours of community service. The company also launched a competitive technology grant opportunity, Doers for Youth, which provided nonprofits with 40 volunteer hours from Lenovo employees.

- **Encouraging the youth to serve their communities**

In 2012, Lenovo partnered with DoSomething.org and Microsoft Bing for "The Hunt: 11 Days of Doing",

a campaign featuring TV celebrity spokesperson Shenae Grimes to inspire teens across the U.S. to make a real difference in their communities through 11 days of themed challenges. The Hunt embraced all facets of volunteerism on a variety of platforms focused on community issues including energy and recycling, poverty and homelessness, violence and bullying, health and fitness, discrimination, disaster response and relief, education and animal welfare. Lenovo and its two partners combined resources and strategies, utilizing traditional and social media, to generate awareness on a national scale.

• **Igniting enthusiasm for technological innovation**

In 2012, Lenovo reinforced its support for the National Academy Foundation (NAF) by sponsoring local college students to attend the annual NAF Next Conference held in Washington, D.C. In 2011 and 2012, Lenovo offered ThinkPad laptops and tablets (\$150,000) and a financial contribution (\$75,000) to NAF to support an innovative application development competition held at five schools. The competition was designed to encourage greater interest in STEM (science, technology, engineering and mathematics) subjects.

3.3 Level of engagement in donation projects

Companies’ level of engagement in donation projects is a key determinant of the projects’ effectiveness. According to our survey, 76% of the Chinese companies donate directly to local communities. Out of this total, 38% implement follow-up supervision, while the other 38% do not. The remaining 24% of the companies state that they donate to international organizations, half of them (12%) choose to monitor the effectiveness of these donations; the other half do not (See Figure 8.13).

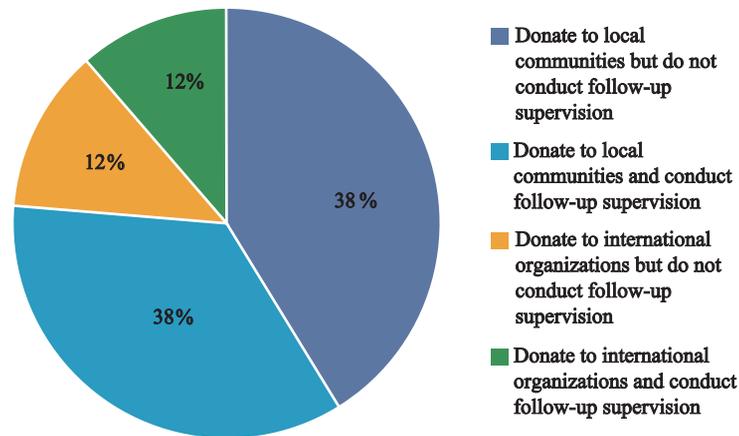


Figure 8.13: “Going global” Chinese companies’ level of engagement in overseas donation projects

3.4 Major challenges in carrying out public welfare projects

According to our survey, Chinese companies tend to face the following challenges when carrying out overseas public welfare projects: lack of specialized partners with local influence to assist in the design and implementation of public interest projects (40%<sup>①</sup>); limited impacts on brand development overseas

① 252 companies responded to this question.



due to a lack of continuous and systematic investment in public interest projects (37%); and difficulty in publicizing Chinese companies' contributions to local communities in an objective and unbiased manner due to inexperience working with international news organizations (34%). Furthermore, 12% of the surveyed companies are becoming aware of the misalignment between some public interest projects and the actual needs of local communities, attributing such deficiencies to a lack of effective communication with stakeholders and a lack of systematic project planning (See Figure 8.14).

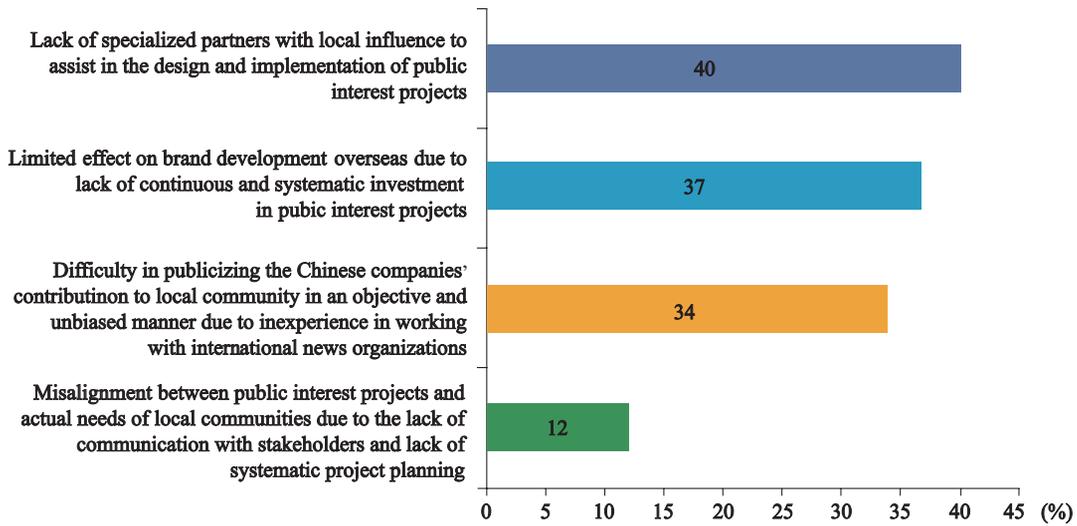


Figure 8.14: Limiting factors for overseas public interest projects



## IX. Achievements and Challenges

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Chinese companies' march toward internationalization not only illustrates China's bold attempt to fully integrate its economy into the world, but also embodies the process through which Chinese companies are opening themselves to the world on all fronts, acclimatizing to international markets and business rules, and progressively gaining a better understanding and becoming more inclusive of other cultures and values. In their bids to achieve sustainability in overseas investment and cooperation projects, Chinese companies "going global" have come to realize the importance of balancing economic, social and environmental development in their host countries. They have made considerable achievements in this regard, though there is still some room for improvement.

Generally speaking, the achievements made by Chinese companies in maintaining sustainable development overseas are mainly manifested through the following aspects:

### **1. Positive impacts by China's "going global" companies on host countries:**

Both the economic development, government revenue and employment of host countries have increased thanks to China's capital injection and infrastructure investment. This positive effect is especially prominent with respect to infrastructure investment. China's investment in developing countries' transportation, water conservancy and communication projects can improve locals' living standards and offer them more development opportunities.

### **2. Rise of the culture of sustainability:**

Through various policies, guidelines and initiatives, the Chinese government and industry associations encourage companies to adopt more sustainable practices. Meanwhile, a number of business models and examples are promoted as industry "good practices", alerting more Chinese companies to the great value of sustainable development to improving their core competitiveness. The attention given by other public organizations, including domestic and overseas NGOs, research institutes, and bilateral or multilateral international organizations, to the sustainable overseas development of Chinese companies has also boosted Chinese companies' awareness and capabilities to some extent.

### **3. More proactive efforts in international exchange and cooperation:**

As China intensifies its reforms and opening up measures, both the Chinese government and companies are more active in international exchanges and cooperation programs. Through a wide range of international platforms, relevant departments and agencies of the Chinese government are voicing their viewpoints in response to some of the international community's misunderstandings toward the overseas sustainability of Chinese companies. Such governmental organs also help the international community gain a well-rounded picture of Chinese companies by carrying out research and cooperation projects in collaboration with international organizations. Chinese companies themselves have also actively

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participated in a variety of international initiatives and conventions, and are seeking to cast themselves as responsible companies and investors through their own efforts.

**4. The emergence of Chinese multinational companies with global perspectives:**

After years of exploration and experiments, some Chinese companies that have made large-scale overseas investment for relatively longer periods have formulated a set of models and practices that are in line with the philosophies, policies, management and actions of sustainable development and their own respective business profiles. In time, these companies will set the standards for Chinese companies' sustainable overseas development and will win the hearts and minds of the international community.

Despite these achievements, Chinese companies are still confronted with the following challenges in their overseas sustainable development:

**1. The awareness of sustainable development needs to be enhanced:**

Both the Chinese government and companies should further raise their awareness of sustainable overseas development. This should include knowledge of existing international standards and guidelines, the performance of corporate social responsibilities overseas, and stakeholders' expectations on the economic, environmental and social sustainability of Chinese companies' projects.

**2. Chinese companies' mechanisms, skills and capacities to communicate with stakeholders and the international community need to be strengthened:**

First, some Chinese companies have yet to build effective communication mechanisms to exchange ideas with stakeholders of host countries and the international community. Where communication does occur, it is often hampered by Chinese companies' inadequate communication skills and capacity, leading to environmental and community-related disputes. In addition, there is often a disparity between the international community's opinions on Chinese companies' behaviors and these companies' self-perception, which, combined with Chinese companies' slow and passive responses, tends to widen misunderstanding between the two sides. Compliance with international standards and norms can often enable Chinese companies to issue objective responses to allay these doubts with confidence, but such compliance still needs to be reinforced among Chinese companies.

**3. The capacity for sustainable development among small-sized companies and newly globalized companies needs to be enhanced:**

The disparities between such capacities are particularly apparent between small and large companies. Large-sized companies perform better on such sustainability indicators as purchasing from local sources, transferring technologies, establishing good labor relations in host countries, carrying out environmental impact assessments, publishing environmental management reports and protecting the environment. Furthermore, companies that have been operating overseas for longer have accumulated more experience in sustainable development, which enables them to run better businesses in many aspects than those who have ventured overseas only recently.

**4. The gap between the policies and practices of Chinese companies needs to be bridged:**

All "going global" Chinese companies have developed a keen awareness for subjects related to



sustainable development. Some have developed policies and management mechanisms to prevent risks, perform corporate social responsibilities, invest in public welfare projects and assess environmental and social impacts. However, the implementation and effectiveness of such measures are often unpredictable and may deviate substantially from original plans.

The following tables summarize the survey results and provide a more detailed look at the achievements and challenges of Chinese companies in sustainable corporate governance, economic, environmental, and social development.

Table 9.1: Summary of Chinese Companies' Achievements and Challenges in Sustainable Overseas Development

Corporate Governance		
	Achievements	Challenges
Overseas Risk Management	The majority of Chinese companies have established a relatively comprehensive overseas risk management framework.	<ul style="list-style-type: none"> <li>•Companies' risk prevention practices still fall short of their policies, especially with regard to setting up special risk prevention funds and conducting third-party social and environmental impact assessments.</li> </ul>
Overseas CSR	An increasing number of Chinese companies have come to acknowledge the concept and value of "corporate social responsibilities", and are gradually turning it into actions. Nearly 90% of them have established or plan to establish an overseas CSR management system, and most of them have appointed special personnel or designated special departments for this work.	<ul style="list-style-type: none"> <li>•Chinese companies' knowledge on the specific international standards and guidelines on sustainable development needs to be enhanced.</li> <li>•Chinese companies need to be motivated more by such external factors as expectations of their business partners, stakeholders and local communities.</li> <li>•The effective connection between CSR management system and their overseas CSR implementation departments needs to be enhanced.</li> <li>•Overseas CSR reports need to be released at higher frequencies.</li> <li>•Lack of professionals, financial support and incentive/punishment system are the major factors affecting the implementation of CSR initiatives.</li> </ul>
Overseas Stakeholders	Chinese companies attach great importance to stakeholders who are highly relevant to their core business (including customers, shareholders, local governments, the Chinese government, and suppliers), and most companies have established a set of approaches for interacting with stakeholders.	<ul style="list-style-type: none"> <li>•Chinese companies' understanding and appreciation of the role and function of indirect interested parties (local communities, trade associations, news media, international organizations and NGOs) need to be improved.</li> <li>•The existing mechanism for interacting with stakeholders needs better implementation in practice.</li> </ul>



Economic Performance		
	Achievements	Challenges
Overseas Business Operations	Most Chinese companies run successful business operations overseas. Most companies believe they have a leading or above-average innovation and R&D capabilities in host countries. The national strategies, policies and planning of host countries are becoming important factors that influence Chinese companies' overseas investments.	<ul style="list-style-type: none"> <li>Some companies have yet to achieve profitability in their overseas operations, with 24% of the companies operating at a loss for the time being.</li> <li>Most companies only have limited financing channels. They mainly work with domestic financial institutions and are not yet adept at working with overseas financial institutions.</li> </ul>
Local Procurement	Most Chinese companies assent to the principle of prioritizing local procurement.	<ul style="list-style-type: none"> <li>In practice, most companies purchase predominantly from China due to various constraints, including culture and language differences, excessive costs, inexperience at managing local procurement, and quality of host country's suppliers.</li> </ul>
Transfer of Technologies and Management Experiences	Most companies believe that they have had a positive spillover effect on local companies by helping local suppliers and sub-contractors improve their technologies and management.	<ul style="list-style-type: none"> <li>Some companies are not confident about the effectiveness of such technology and experience transfers.</li> <li>The system for evaluating the sustainability of suppliers needs improvement.</li> </ul>
Compliance and Market Competition	Most companies believe that they can run a compliant and fair overseas business. "Business integrity" is named by most companies as one of their core values for overseas operations.	<ul style="list-style-type: none"> <li>There exists competition among Chinese companies overseas.</li> </ul>

Environmental Protection		
	Achievements	Challenges
Compliance	Most Chinese companies represent that they are knowledgeable about the host country's environmental laws and regulations, that they have conducted third-party environmental impact assessment on overseas projects, and that they have adopted certain measures (installing pollution control equipment, investing in environmentally friendly products, and conducting regular assessments, etc.) to reduce the environmental impacts on the host country.	<ul style="list-style-type: none"> <li>Although most companies have conducted third-party environmental impact assessment, greater effort is needed for follow-up implementation and improvement.</li> <li>Greater transparency regarding information on the environmental impact is required.</li> </ul>
Energy Consumption, Emission and Wastewater Discharge	Most companies have established rules governing energy efficiency, energy conservation, emission control and wastewater discharge.	<ul style="list-style-type: none"> <li>Companies have limited understanding of energy efficiency management and emission and wastewater management.</li> <li>The gathering and analysis of relevant information and data need to be improved.</li> </ul>
Biodiversity Conservation	Most companies believe that they have not negatively impacted the biodiversity conservation of host countries.	<ul style="list-style-type: none"> <li>Industries that have major impacts on biodiversity conservation should attach more importance to understanding and implementing the relevant protective measures.</li> </ul>





Social Performance		
	Achievements	Challenges
Labor Relations	<p>Most Chinese companies believe that they have established a relatively comprehensive hiring practice that safeguards equal employment, occupational health, safe production, and wage security.</p>	<ul style="list-style-type: none"> <li>•Cultural differences are the most prominent issue facing overseas labor relations.</li> <li>•Chinese companies should give higher priority to the training and promotion of local employees and to raising the proportion of local managers.</li> </ul>
Community Issues and Overseas Social Impact Assessment	<p>Over half of the companies have conducted third-party social impact assessment. Additionally, they actively seek to establish harmonious community relations through strengthening communication with stakeholders, weighing community risks when making investment decisions, stepping up interactions with local residents and increasing investment in public welfare projects.</p>	<ul style="list-style-type: none"> <li>•Nearly half of the companies have not conducted third-party social impact assessment.</li> <li>•Unfamiliarity with local customs, lack of communication, cultural differences and local residents' misperception are the main issues confronting Chinese companies.</li> </ul>
Overseas Public Welfare Investment	<p>Chinese companies give back to the local communities mainly through such means as organizing cultural exchanges, participating in local infrastructure projects, providing vocational training, and running public welfare programs for underprivileged groups.</p>	<ul style="list-style-type: none"> <li>•Greater involvement in charity projects is expected of Chinese companies.</li> <li>•Major factors hindering Chinese companies' public welfare programs include lack of influential partners, lack of sustained and systematic public welfare investment, and inexperience at interacting with media to generate positive publicity.</li> </ul>



## X. Recommendations

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### 1. Recommendations to the Chinese Government and Relevant Institutions

#### **(1) Strengthening the policy guidance for sustainable overseas development of Chinese companies**

The Chinese government should further strengthen the policy guidelines, give adequate guidance around the sustainable overseas development of Chinese companies, encourage companies that excel in overseas sustainability to become role models, and intensify punishments for companies that do not comply with relevant rules and regulations. The government should pay more attention to small and medium enterprises, with a view to improving the overall level of sustainability of Chinese companies overseas. Chinese industry associations should formulate industry regulations and effective CSR guidelines to enhance Chinese companies' knowledge of overseas environmental laws and regulations, raise the awareness for protection of local biodiversity, promote the assessment of environmental impact by third parties.

#### **(2) Providing more guidance for the sustainable overseas development of Chinese companies**

Chinese government should establish an information-sharing platform providing information concerning the politics, economy, society, culture, employment laws and environment of the host country; provide companies with more guidance and support in respect of information service; and offer risk warnings through close cooperation and communication with international organizations, relevant state agencies and Chinese diplomatic missions as well as through continuous update, analysis and studies of the relevant information gathered from these sources. The Chinese government should set up exchange platforms overseas to facilitate local Chinese companies in communicating with and learning from each other, and enhancing the synergy between companies.

#### **(3) Further improving the guidance and coordination for security management in China's "going global" process**

At present, the state of international security is intricate and complex and terrorist activities are becoming increasingly aggressive across the world. The number of incidents that endanger the personal safety and the safety of employees' property at globalized companies has thus risen sharply. We suggest that the relevant authorities should improve their early-warning and crisis management systems to effectively prevent the occurrence of terrorist activities and personal injury incidents.

#### **(4) Encouraging domestic academic research and the development of think tanks with international influence**

Compared to the studies carried out by international academia, think tanks, international organizations and NGOs, there is still plenty of room for improvement for academic research and policy studies in China. Given the advantages of Chinese researchers in both the Chinese language and the availability of information in this field, the government should greatly strengthen policy and academic research in this area, and the establishment of think tanks so as to provide better guidance for the government decision-making and company practices. These efforts will also enhance the international community's understanding of the sustainable overseas development of Chinese companies.

**(5) Promoting the sustainable overseas development of companies through financing conditions**

Following the issuance of the *Green Credit Policies*, sustainability requirements have been included in the lending terms of the Export-Import Bank of China and China Development Bank and other policy and commercial banks in recent years. Financial institutions should dynamically adjust the financing terms for overseas investment and cooperation project based on requirements of the international community and the host country, thereby promoting the sustainable overseas development of Chinese companies.

**(6) Enhancing the cooperation with the United Nations G20, and other international platforms with respect to the sustainable overseas development of companies**

Currently, there are very few platforms that can bring global perspectives and experience for the Chinese government to learn from, in order to help China find its voice on the world stage. Although many government organizations, domestic and foreign think tanks and NGOs are committed to the study of sustainable overseas development of Chinese companies, there is not yet an integrated platform for all of these organizations to exchange information, share and protect research findings and keep Chinese companies informed in a timely manner of relevant research being conducted in the field. Therefore, it is recommended that the Chinese government should build such a central platform through joint effort with the United Nations, in order to foster greater international cooperation.

## 2. Recommendations to Chinese Companies

### 2.1 Corporate governance aspects

**(1) Implementing sustainable development concepts in company production and operation mechanisms**

Chinese companies should turn sustainable development from a mere concept into a driving force for improving their soft power. They should view sustainable development as a component of corporate governance and integrate it into their product, marketing and technology strategies. Companies should understand that the sustainable development should not conflict with the operation and profit-making of the company. In fact, if they can combine sustainability with their technological advantages and competitiveness, then the performance of corporate social responsibilities will help them build a positive image, create brand value with increased profit. Ideally Chinese companies should explore and increase awareness to practices that allow for better convergence between core business and sustainable



development like share value and/or inclusive business.

In addition, companies should strengthen their communication and cooperation with international platforms, integrate international standards into their development strategies. Chinese companies should also enhance the contact and cooperation with relevant international organizations, NGOs and other local stakeholders. Due to their third-party status, international organizations and NGOs command credibility across the world and are thus often more readily accepted by stakeholders in host countries. Forming close ties with these organizations can attract public attention to Chinese companies and expand their community influence.

**(2) Establishing and improving the communication mechanism with stakeholders and promoting transparent management**

Chinese companies should develop a greater awareness of how valuable disclosing their CSR activities and achievements can be, and should establish a sound CSR management system. Chinese companies should protect overseas stakeholders' right to know, supervise and participate in their business operations, and should introduce relevant communication and participation mechanisms so as to exchange ideas with and accept the supervision of stakeholders on a regular basis. In addition, Chinese companies should promote transparent management, engage specialized third-party organizations to assess their sustainability performance and disclose the information via regular reporting.

**2.2 Economic aspects**

As globalization spreads, Chinese companies can more easily take part in international economic cooperation. They should integrate into global industries by leveraging their business intelligence, resources and technical strengths and promote international economic cooperation and prosperity.

While "going global" and improving their sustainability, Chinese companies can help optimize the global allocation of resources, promote the sharing of technical innovations and achievements, promote fair operations, local procurement and supply chain management, enhance employment opportunities for local residents, cultivate local talents, and share business values.

**(1) Adhering to compliant operations and actively supporting the economic development and prosperity of host countries**

Chinese companies should be familiar with and heed the laws and regulations of host countries, enhance their awareness of compliant operations, and act in accordance with the law at all times. They should align their business operations with the economic and social development goals of the host countries as well as any regional economic plans, in order to formulate an economic cooperation strategy that utilizes the unique strengths of all parties and promotes mutual benefits, mutual development and sustainable operations.

**(2) Adhering to fair operations and maintaining a sound market order**

Globalized Chinese companies should adhere to the principles of openness, fairness and impartiality in business operation, treat all contractors and suppliers on an equal footing, take precautions against





fraud, commercial bribery, and refrain from undercutting prices, collusion or other short-sighted tactics. Chinese companies should maintain a sound market order by way of fair competition and demonstrate their images as law-abiding and honest companies.

**(3) Promoting the development of upstream and downstream industries in the host countries by increasing the local procurement ratios and technical transfers**

Chinese companies should increase their local procurement ratio so as to help improve host countries' supply chains and industries. Assuming all other qualities are equal, Chinese companies should give priority to local suppliers and contractors, select experienced local employees or local third parties to take charge of business communication, quality control and process supervision of the procurement process. Companies that meet certain conditions are encouraged to build suppliers network in the host countries. In addition, while ramping up purchases from local sources, Chinese companies should purposefully establish the rules and standards for supervising and assessing the fulfillment of social responsibilities of local suppliers and carry out effective supervision over them.

With regard to technical transfer and cooperation, globalized companies are encouraged to change their investment models from contributing technologies for shares and setting up subsidiaries in the host countries to direct transfer of technology to the host countries and co-development of innovative technologies, which will help to improve the economic and technological sophistication as well as the economic gains of the host countries.

**2.3 Environmental aspects**

**(1) Attaching importance to and abiding by local environmental laws and regulations and enhancing environmental assessments for the entire project**

Chinese companies should improve their understanding of the environmental laws and regulations of host countries and strengthen information disclosure in respect of compliance with environmental laws and regulations and the impact of their operations on the local environment, and expand the scope of environmental impact assessment to cover all phases of overseas projects.

**(2) Focusing on the prevention and control of environmental risks, establishing and improving an environmental safety management system which meets the laws and regulations of the host country and applicable international standards**

Chinese companies should attach great importance to the prevention and control of environmental risks, assess the impact on the local environment before starting a project, and implement improvement plans based on assessment results. They should establish and continuously enhance an environmental safety management system which meets the laws and regulations of the local country and applicable international standards, fully respect stakeholders' right to know and factor it into their decision-making, disclose information on their environmental management to the stakeholders of the host country on a regular basis, improve the openness and transparency of their operations, and continuously improve the overall environmental performance of the company.





## 2.4 Social aspects

Globalized Chinese companies should attach importance to and give adequate consideration of the far-reaching influence of its commercial behaviors on local communities.

### **(1) Contributing to social development via means that play to the strengths of the company**

Globalized Chinese companies have taken a diverse range of measures to contribute to the economic development and social welfare of the host countries. Specifically, companies have taken measures uniquely available to their different industries. For example, companies in the agriculture, forestry, fishing, animal husbandry and manufacturing industries tend to contribute to host countries by organizing cultural exchanges, inviting local government officials for research and studies in China, and providing vocational training to local residents. Meanwhile, companies in mining, exploration, energy and construction industries tend to participate in or support the construction of local infrastructure such as hospitals, schools and government office buildings. This shows that the CSR practices of companies across all industries have steadily matured. We suggest that companies that are unfamiliar with CSR activities should learn from their industry peers and select an appropriate channel based on their strengths and the characteristics of the industry, so that they may contribute to the building of the local communities in a most effective manner.

### **(2) Focusing on building harmonious labor relations and enhancing cross-cultural communication and management strategies**

Chinese companies should steadily improve cross-cultural management capabilities and build a harmonious labor relationship. In particular, Chinese companies should prioritize building and improving the benefits, safety and wage system for local employees.

We recommend Chinese companies to take note of the following points:

First, enhancing the awareness of lawful employment and protection of rights, acquiring an in-depth understanding of the local employment laws and the trade union management system, building and improving a human resource management system consistent with local employment procedures and requirements.

Second, providing more employment and training opportunities for local employees, helping them understand the corporate culture, and promoting mutual respect and trust between Chinese and foreign employees; establishing an overseas equal employment opportunity system with due consideration given to the employment of disadvantaged groups such as women and the disabled.

Third, fully recognizing the advantages of hiring local employees, providing career promotion opportunities for local employees through a fair and open selection system and continuously increasing the percentage of local employees in management positions. Enhancing awareness and capacity for cross-cultural management, making an effort to reduce communication and operating costs resulting from differences in language, culture, religious belief and customs, unleashing the enthusiasm and the creativity of local employees by capitalizing favorable circumstances and trends and enhancing their sense of belonging and corporate cohesion.



Fourth, building and improving overseas safe-production management system and occupational health management system. Private companies should recognize the benefits that rational institutional management will bring to sustainability and to the reduction of operating risks and costs.

**(3) Promoting local employment and talent training in host countries and fostering the country economic sustainability**

Chinese companies that have “gone global” should promote local employment and talent training in the host countries through responsible business cooperation, which will not only benefit the host countries in the form of tax revenue but also raise their capacities in process management, rulemaking and skill training, thus enhancing their capacity for sustainable development.

**(4) Improving local social sustainability through responsible investment**

Globalized Chinese companies should establish the concept of “responsible investment” and promote the mutual development of their business operations and the local economy and community. Chinese companies are encouraged to participate in local community development projects and public welfare activities. For supporting the sustainability of local communities, we suggest companies establish a cooperation program participated by local stakeholders such as the local government, community representatives, local employees, specialized non-profit organizations and the media. The program should plan and select public welfare projects in a scientific manner based on actual and urgent needs, and propose corresponding budget management mechanisms. Capable companies may consider establishing an overseas public welfare fund. These public welfare projects should not be limited to infrastructure such as hospitals, schools and government office buildings, but rather respect and reflect the living conditions and wishes of the local residents. Chinese companies should organically combine their long-term commercial partnerships in the region with the capacity building of the local community to plant the seed today for accelerated growth tomorrow. We also suggest that companies should enhance the participation of stakeholders and supervision from third parties in public welfare projects, prioritize the transparency of project implementation and the protection of rights and interests of the beneficiaries, improve their abilities to work with the media, and ultimately use these projects to ferment friendship and trust with the local government and residents and build a positive corporate image in the local community.

### 3. Recommendations to Host Countries

The United Nations Development Programme makes the following recommendations to host countries regarding the sustainable overseas development of Chinese companies based on its experiences in more than 170 countries and regions across the world:

**(1) Improving legislation and strengthening law enforcement**

While running overseas businesses, Chinese companies need to comply with the laws and regulations of China and the host countries and observe any governing international practices and codes of conduct. The host countries are advised to enhance their system of laws and regulations pertaining to economic,

environmental and social sustainability. For instance, the host countries could give specific environmental standards for certain industries, and encourage foreign enterprises to establish effective communication system with host communities, etc. The host countries should also improve the enforcement of these laws so as to regulate the behaviors of foreign investors and enable both the investing companies and the local stakeholders to benefit. The host countries should also emphasize on business aligning their core strategies and operations with sustainability and inclusive growth. Utilizing their global perspective and vast local experiences, organizations under the United Nations can play an active role in assisting the host countries to improve their system of laws and regulations and the management capacities of their government officials.

**(2) Strengthening the mechanism for communication between stakeholders within host countries and Chinese companies**

Survey results show that while many Chinese companies are willing to contribute to the development of the host country, they need to learn how to cooperate and communicate with the local communities and how to design a community development program matching local conditions and the actual needs of local residents. Stakeholders of the host countries should join hands with Chinese companies in establishing an innovative communication and feedback mechanism. For instance, some Kenyan county governments appoint two liaison officers to the social responsibility department of Chinese companies. These liaison officers are selected from the local community and have extensive experience in working at the grassroot level. They bridge the Chinese companies and the local communities by helping local residents understand the projects planned by Chinese companies, communicating the needs of the local residents to the companies, facilitating the companies to better design and implement CSR projects, and acting as a mediator between the Chinese companies and the local community if dispute occurs.

**(3) Enhancing the communication and information sharing between China and the embassies and consulates of host countries in Beijing**

The embassies and consulates of the host countries in China may facilitate the communication and information sharing between the host countries, relevant Chinese government agencies, and headquarters of Chinese companies. They can also provide information to Chinese investors regarding investment, cooperation and project opportunities in the host countries, as well as support in the forms of improved review and issuance mechanisms for work visas and informative investment brochures.

# Annex 1: Questionnaire

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## Questionnaire on the Sustainable Development of Chinese Companies Overseas

### Instruction:

1. Objective of the survey: to understand the status of the overseas sustainable development of Chinese enterprises.

2. Information to be filled out in the questionnaire.

3. Definition of relative concepts

(1) Geographic scope of “Going global”: Foreign countries and China’s Hong Kong, Macao and Taiwan.

(2) Forms of enterprises “going global”: foreign direct investment, setting up overseas branches, investing in factories, setting up R&D centers, establishing science and technology parks, technology investment, cross-border M&A, overseas contracted projects, overseas labor cooperation (pure product export excluded).

(3) Corporate Sustainable Development: When pursuing self-survival and continuous development, an enterprise should consider both the realization of business goals and enhance its market position. To ensure its prosperity in a rather long time, an enterprise is supposed to keep profitable growth and capacity building in the field where it has already been leading and in future business expansion. An enterprise need to focus on the sustainability of economic, corporate governance, environmental and social issues if it wants to achieve its own sustainable development.

4. Requirements

(1) The questionnaire should be filled out by responsible person for overseas business.

(2) To ensure the validity and integrity of the results, please answer all questions faithfully. If you do not have some of the indexes, please fill in “N/A”.

5. Privacy statement: All your answers will be kept confidential and used only for this research.

### Information and contact details of the filling person

Name of the enterprise: \_\_\_\_\_

Name of the filling person: \_\_\_\_\_

Department: \_\_\_\_\_ Position: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

Email: \_\_\_\_\_

Enterprise webpage: \_\_\_\_\_

Date of filling: \_\_\_\_\_



Please answer the following questions based on the practical situation of the industry/enterprise and your own experience.

**Instruction:**

Please write on “\_\_\_\_\_” and check on “”.

**Questionnaire**

**Part I Basic Information**

① Type of the company (parent company)

- State-Owned  Private-Owned

② Scale of overseas investment

- Below 1,000,000 USD  1,000,000-5,000,000 USD  
 5,000,000-10,000,000 USD  10,000,000-50,000,000 USD  
 50,000,000-100,000,000 USD  Over 100,000,000 USD

③ The industry it belongs to: (Main business)

- Manufacturing  
 Agriculture, Forestry, Fishery, Animal Husbandry  
 Mining  Real Estate  
 Leasing and commercial services  ICT  
 Wholesale and retail  Accommodation, Tourism, Catering  
 Sports and Entertainment  
 Production and Supply of electricity, heat, gas and water  
 Construction  Financial Service  
 Water, environmental, public facilities management  
 Residential Service, Repairing Service  
 Traffic, Transportation, Storage, Postal Service  
 Scientific Research, Technical Service  New and Renewable Energy  
 Others (*please specify*): \_\_\_\_\_

④ The areas that overseas branches belong to (you may choose more than one option)

- Europe  North America  South America  
 Oceania  Asia  Africa (*please specify*): \_\_\_\_\_

⑤ The importance of company’s business in above areas/countries

- High  Average  Low





⑥ Forms of cooperation and overseas investments (you may choose more than one option)

- Greenfield Investment
- Overseas M&A
- Engineering Contract
- Labor Service Export

⑦ For how long has the company have business overseas:

- Over 10 years
- 5-10 years
- 3-5 years
- Less than 3 years

⑧ Structure of overseas employee:

The total number of overseas employee is \_\_\_\_\_, among which the number of female employee is \_\_\_\_\_;

The age of overseas employee range from \_\_\_\_\_ to \_\_\_\_\_;

The number of local employee in the senior management team (department manager and above) is \_\_\_\_\_.

## Part II Corporate Governance

### 1. Risk Management Mechanism

① What are some of the jobs you have done to establish the frame for overseas risk management system? (You can choose more than one option.)

- Build up organizational system for risk management
- Establish standard risk assessment system
- Establish risk warning system
- Establish controlling mechanism for emergent risks
- Cultivate corporate culture of risk management
- Others (please specify): \_\_\_\_\_

② What are the major actions you take for risk precaution in the past three years?

(You can choose more than one option.)

- Enact relevant articles of incorporation for risk precaution
- Establish special organization for risk precaution and appoint relative personnel
- Set up special fund for risk precaution
- Enact contingency plan and have regular practices
- Establish risk warning and tracking system
- Keep regular communications with stakeholders
- Hire professional third party institutions to evaluate the risks and social impact of projects
- Give training to employees on local culture, language, safety, anti-corruption etc. before sending them overseas

- Others (please specify): \_\_\_\_\_





③ What are the risks your company is facing in its overseas operation? (You can choose more than one option.)

Main risks the company is facing in its overseas operation (The options have been set into 5 scales with "1" referring to "the risk is very low" and "5" referring to "the risk is very high")	1	2	3	4	5
Corruption					
Political situation					
Labor issues					
Community issues					
Environmental issues					
Employee safety					
Local prices and inflation					
Infectious diseases					
Others					

**2. CSR Management Mechanism**

① How do you perceive the relationship between corporate development and social responsibility? (You can choose more than one option.)

- Corporate development is to pursue the maximum profit and it has little to do with social responsibility.
- For sake of its own development, enterprises can ignore social responsibility when necessary.
- Enterprises must fulfill social responsibility in pursuit of its own development
- Fulfilling social responsibility can enhance the company’s development and competitiveness

② What are the fundamental driving forces for your overseas branches to perform social responsibility? (You can choose more than one option.)

- Requirements of the headquarter
- Local culture and management philosophy as driving forces
- Requirements of local government
- Requirements of local community
- Pressure from the demand of employees, consumers, media, the public and other stakeholders
- Contract with or requirements of business partners
- Others (please specify): \_\_\_\_\_

③ Have you built CSR management mechanism specifically for overseas businesses?

- Yes, it works well and we have dedicated departments and personnel.





- Yes but it doesn't work very well and we have not dedicated departments and personnel.
- No but we plan to build one.
- No and we don't have any plan about that.

④ Do you release overseas CSR report?

- Yes, we release a separate overseas CSR report annually.
- Yes, we release a separate overseas CSR report regularly.
- CSR performance of overseas operation is included in the company's annual CSR report.
- We haven't released information on overseas CSR performance in any form.

⑤ Has your company been awarded any prize or honor in CSR?

- Yes. *(please specify)*: \_\_\_\_\_
- No.

⑥ How good is your overseas branches' CSR performance in host countries?

- Excellent and it can play a promoting role in fulfilling social responsibility.
- Good and there are some good practices in CSR performance.
- Fair and there's no typical positive or negative case.
- Poor and there have been some negative cases.

⑦ What are some restraints for your overseas branches to fulfill social responsibility?

(You can choose more than one option.)

Restraints impeding the performance of CSR <i>(The options have been set into 5 scales with "1" referring to "strongly disagree" and "5" referring to "strongly agree")</i>	1	2	3	4	5
Senior executives lack CSR awareness and comprehensive understanding of CSR					
Companies have operational difficulties and could not afford CSR deeds					
Companies lack of support from professional organizations and personnel, thus lack of theoretical and practical support					
There's no uniform requirement or regulation from the headquarter					
There's little pressure from local stakeholders in the host country					
The company hasn't established rewards and punishments system on environment and society for the heads of overseas business.					
Others					





### 3. Stakeholders Engagement

① How do you evaluate the importance of stakeholders in the host country?

Importance of stakeholders in your opinion (The options have been set into 5 scales with "1" referring to "the least important" and "5" referring to "the most important")	1	2	3	4	5
Shareholders (Investors)					
Clients					
Suppliers					
Government of the host country					
Chinese government agencies to local resident					
Employees					
Local communities					
Media					
International organizations (UN agencies in the host country)					
NGOs					
Industry associates					
Competitors					
Financial institutions					

### 4. Internationalized Management

① What is your knowledge on concepts relating to sustainable development?

Your knowledge on concepts relating to sustainable development (The options have been set into 3 scales with "1" referring to "very familiar", "2" referring to "basically familiar" and "3" referring to "not familiar")	1	2	3
Corporate Citizenship			
Stakeholder Theory			
Triple Bottom Line (Economic, Environmental and Social)			
UN Millennium Development Goals and Global Sustainable Development Goals			
The United Nations Global Compact			
ISO26000			
Global Report Initiative (GRI)			

② Do you comply with any international standards or guidance on sustainable development/CSR?

- If yes, please list them (e.g. ISO, GRI). \_\_\_\_\_
- No, because the local government doesn't have such request.





No, because there's no such plan in the company's strategy.

③ Are there any externally developed economic, environmental and social charters, principles or other initiatives to which your company subscribes or which it endorses?

If yes, please list them (e.g. UNGC, WBCSD, Equator Principles).

No, because the local government doesn't have such request.

No, because there's no such plan in the company's strategy.

④ In terms of the company management systems mentioned above, which systems are established especially for the overseas operation? (You may choose more than one option)

Risk management system

Corporate Social Responsibility management system

Communication mechanism for stakeholders

Internationalization management

### Part III Economy

#### 1. "Going global" Strategy

① The degree to which your company has worked with financial institutions

A. The degree to which your company has worked with domestic financial institutions

Close

Average

There is no such cooperation.

B. The degree to which your company has worked with foreign financial institutions

Close

Average

There is no such cooperation.

② How do you deal with the development strategies, policies and regulations in host countries?

We include them into corporate development strategy and link them closely with our operation

We attach some importance to them and use them as references.

We occasionally consider them according to our operation.

Those have little to do with the corporate development and we seldom pay attention to them.

③ What are the main technical transfer methods during the enterprises' external investment cooperation? (You may choose more than one option.)

Transfer the techniques through technology investment and subsidiaries establishment

Exchange the techniques with developed countries

Transfer the successful technologies to developing countries

Transfer whole sets of equipment for technology or capital intensive industries

Others (*please specify*): \_\_\_\_\_

④ How is your overseas branches' innovation and R&D ability in the host countries?

Leading

Good

Average

Below average





**2. Compliance**

① Have your overseas branches established system in the following aspects? ( you may choose more than one option)

- Honest operation       Anti-corruption       Anti-commercial bribery
- Fair competition       Others (*please specify*): \_\_\_\_\_

② Has your company been investigated in the host countries due to breach of local laws and regulations on investment, taxation, employment, environmental protection or intellectual property?

- No                               Yes it happened once               Yes, it happened more than once

③ Has your company been investigated due to commercial bribery or other corruption?

- No                               Yes it happened once               Yes it happened more than once

**3. Localization**

① What are the purchasing channels for your company’s overseas business?

- Purchase internally from China
- Purchase externally from China
- Purchase from host countries
- Purchase from a third country
- Others (*please specify*): \_\_\_\_\_

② If possible, do you prefer to purchase products and services from where the project takes place in order to be more localized?

- If yes, please specify on the percentage of local purchase. \_\_\_\_\_
- No.

③ In the process of purchase localization, have you enacted regulations or methodologies to assess the sustainability or CSR performance of suppliers from the host countries?

- Yes, we have and they’ve been implemented.
- Yes, we have but they haven’t been implemented.
- No, we haven’t but are planning on that.
- No, we haven’t and there’s no plan about that in the near future.

④ To what degree has your company assisted suppliers and subcontractors in improving their technology and management in the recent three years?

- Good                               Fair                               Not at all

⑤ What are the difficulties your company has encountered when building overseas marketing network? (You can choose more than one option)

- Lack of comprehensive understanding of overseas target market where the risk is high
- Lack of experience on multinational management



- Construction of overseas marketing network is too costly
- Culture and language gap
- Lack of experience in quality management of overseas product
- Enterprises suffer funds shortage and have poor financing channels
- Others (*please specify*): \_\_\_\_\_

**4. Market Competition**

- ① In the past three years, who are your company’s primary competitors in overseas operation in host countries?
- Chinese enterprises       Multinational corporations based in other countries
  - Local companies

**5. Income from Operation**

- ① How profitable are your overseas investment cooperation projects?
- Very profitable       Profitable       Even       Temporarily in loss

**\*For contracting enterprises only**

- ② Owner’s Return:
- When carrying out contracting projects according to the design and standard of the owner, will you recommend a higher standard if the one of the owners is lower than that of China or your own?
- Yes       No

**Part IV Environmental**

**1. Compliance**

- ① What is your knowledge about the environmental laws and regulations in relation to your own industry in the host county?
- Very familiar       Familiar       Less familiar       Not familiar
- ② What is your knowledge about the environmental laws, regulations and guidance in relation to the overseas investments and cooperation which are enacted by the Chinese government?
- Very familiar       Familiar       Less familiar       Not familiar
- ③ In the past three years, how many times does your company have disputes caused by the environmental problems during the production process in the host country?
- None       Once       More than once
- ④ In the past three years, how many times has your company been investigated or reported regarding the environmental pollution by the local NGO or media in the host country?



None                       Once                       More than once

**2. Environmental Management System**

① Has the third party environmental impact assessment been implemented prior to the overseas investment project? What’s the result?

- Yes, no suggestions for improvement have been provided.
- Yes, suggestions provided and are being progressively implemented.
- Yes, suggestions provided and have been implemented thoroughly.
- No.

② The description about the environmental management in the host country

The description about the environmental management in the host country (The options have been set into 5 scales with “1” referring to “the least consistent” and “5” referring to “the most consistent”)	1	2	3	4	5
The strategic goal of the environmental management has been formulated in detail in the management plan in the host country					
The standard of environmental management system has been set and the third party verification has been passed (ISO14001)					
The environmental management report would be published regularly by the company					
The internal environmental management report would be disclosed regularly by the company					
The environmental risks occurred during the production process would be evaluated regularly by the company					
A complete environmental risk emergency plan has been made					
The company regularly engages the third party to implement the environmental management assessment and has gained remarkable effects					
The environmental goal has been included in the annual remuneration index of senior managers					
The environmental strategic goal has been promoted by a particular department					
The life cycle assessment of the environment has been included in the products by the company					
Environmental-friendly products have been invested by the company to minimize environmental impacts					
The pollution-control equipment has been bought and installed to reduce emissions					
The high energy-consuming equipment has been updated to reduce energy consumption					





**3. Energy Consumption (for the manufacturing enterprises only)**

- ① Has your company enact and implement relevant measures of energy efficiency management and energy conservation for the overseas operation?
- Yes, the production cost has been saved
  - Yes, but temporarily haven't seen the effect of cost-efficiency
  - No.

**4. Exhaust, sewage dispose and waste management (for the manufacturing enterprises only)**

- ① Has your company enacted and implemented any relevant measures of waste and poisoned waste disposal in the overseas operation?
- Yes, no relevant environmental accidents happened in the past three years.
  - Yes, but relevant environmental accidents happened in the past three years.
  - No.

**5. Biodiversity**

- ① To what extent that the local biodiversity protection has been affected by your company's overseas operation?
- Serious                       A little                       None
- ② The implemented measures of biodiversity protection in the company's overseas operation:
- Participate in the local environmental ecological system
  - Support the species' ex situ conservation
  - Assist to build biological gene pool
  - Promote to construct the legal system for biodiversity
  - Others (*please specify*): \_\_\_\_\_

**Part V      Social**

**1. Compliance**

- ① Has your company invited the third party to implement the social influence assessment before launching the project?
- Yes, no suggestion for improvement have been provided.
  - Yes, suggestions provided and are being progressively implemented.
  - Yes, suggestions have been provided and implemented thoroughly.
  - No.

**2. Industrial Relation**

- ① The major labor problems that your company has encountered overseas.





The major labor problems that your company has encountered overseas	Evident	Average	Less Evident
Disputes on labor relations contract			
Guarantee on Labor rights problem			
Lack of experience on working with Labor Union			
Occupational health and safety			
Training and education			
Disagreement on payment and welfare			
Disputes on work injury compensation			
Strikes			
Cultural gap			
Learn and respect local customs			

② In terms of the harmonious labor relations, the company's opinion:

Opinions on building the harmonious labor relation (The options have been set into 5 scales with "1" referring to "the least important" and "5" referring to "the most important")	1	2	3	4	5
Obey local laws and regulations on labor employment					
Enhance the integration of Chinese and local employees					
Increase the portion of local employees in the management team					
Get familiar with the function of local labor organizations and build well-functioned communication mechanism					
Provide more promotion opportunities for local employees					
Learn and respect local culture and customs					
Learn from the management experience of other multinational corporations					
Provide more training for local employees					

③ Have your overseas branches established equal employment system for Chinese and foreign employees? (You can choose more than one option.)

- Have established equal employment system for the recruiting process
- Have established equal employment system for training and promotion
- Have established equal employment system for remuneration and welfare

④ Have your overseas branches established management system for employees' occupational health and safety?

- Have established extremely sound management system for occupational health and put an end





- to occupational disease.
  - Have established basically sound management system for occupational health and could control occupational diseases.
  - Is establishing the management system for occupational health.
  - Haven't established the management system for occupational health.
- ⑤ Have your overseas branches established the management system for safety production?
- Have established extremely sound management system for safety production and put an end to security incidents.
  - Have established basically sound management system for safety production and ensure the security incidents index reach the standard.
  - Is establishing the management system for safety production.
  - Haven't established the management system for safety production.
- ⑥ What kinds of measures have been taken by your overseas branches to guarantee employees' salary and welfare? (You can choose more than one option.)
- Complete management system for remuneration
  - Sound incentive system
  - Never delay the wage payment
  - Pay overtime according to law
  - Offer paid leave
  - Others (*please specify*): \_\_\_\_\_

**3. Local Community Engagement**

- ① What are the main reasons for the community problems your company has come across overseas? (Choose the top three)
- Influences caused by business operation on native populations
  - Not familiar with local culture and customs
  - Lack of communication and interaction with local community residents
  - Disputes on rights and interests caused by land expropriation and other problems
  - Misunderstanding and conflicts between Chinese employees and local residents because of culture difference
  - Local residents' misunderstanding towards Chinese enterprises because of political factors
  - Media's negative reports
  - Others (*please specify*): \_\_\_\_\_
- ② What are the experiences you get on building harmonious community relations? (Choose the top three)
- Learn more about local community problems and potential risks when making investment decisions
  - Enhance communication with local community stakeholders (government, NGOs, residents





and so on)

- Strengthen interaction with community residents and actively integrate into the local society
- Invest more on the public good of local community to build good image and reputation for enterprise
- Increase the portion of employees from local community
- Increase the transparency of corporate activities and foster good corporate brand and culture through media
- Gain more effective results on the sustainable development through cooperating with the stakeholders (including other enterprises)
- Others (*please specify*): \_\_\_\_\_

#### 4. Social Welfare Contributions

- ① In what forms has your company contributed to the development of local society in the host countries? (Choose the top three)
- Help to build hospitals, schools and government buildings
  - Participate in local infrastructure construction
  - Launch philanthropic projects especially for local vulnerable groups
  - Culture exchange
  - Sponsor local students to study in China
  - Support local government officials to learn in China on development experience
  - Develop occupational skills trainings specific to local residents
  - Launch community anti-poverty projects together with local NGOs or UN institutions
  - Post-disaster emergent rescue
  - Launch ecology and environment protection projects in local area
  - Others (*please specify*): \_\_\_\_\_
- ② Have your overseas branches established the donation management system for the host country?
- Have established perfect donation management system
  - Have established but still need to be improved
  - Is establishing the relevant management system
  - Have not established and have no plan temporarily
- ③ The overseas branches participate in the donation projects:
- Only financial donation to the local communities, but not responsible for the donation effect.
  - The company is responsible for organizing and donating, and keep an eye on the donation effect.
  - Financial donating to international organizations or local NGOs, but not responsible for the donation effect.
  - Cooperate with international organizations or local NGOs to establish the donation project, and keep an eye on the donation effect.





Other (*please specify*): \_\_\_\_\_

④ What are the experiences you get on launching social good projects overseas? (Choose the top three)

- Some aid projects didn't meet actual needs because of poor communication and plan.
- Because investment on social good is not continuous and systematic, it has limited effect on fostering enterprises' brand overseas.
- Enterprises lack of professional partners that has great impact locally to assist them in planning and implementing social good projects more professionally.
- Lacking the experience in working with international media thus, Chinese enterprises couldn't advertise their positive contribution to the investment destination objectively.
- Others (*please specify*): \_\_\_\_\_



## Annex 2: The Table of Content of the Guides to Overseas Investment and Cooperation by Country (Region) (2014)

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### 1. What kind of country xxx is?

- 1.1.xxx's history and current situation
- 1.2.How is xxx's geographical environment?
- 1.3. How is xxx's political environment?
- 1.4. How is xxx's social-cultural environment?

### 2. How much attraction does xxx have for overseas investment?

- 2.1. How is the economic performance of xxx in recent years?
- 2.2. How big is xxx's domestic market?
- 2.3. How is xxx's infrastructure situation?
- 2.4. How is xxx's overseas trade relations?
- 2.5. How is xxx's financial environment?
- 2.6. How is xxx's stock market development?
- 2.7. Is xxx's business cost competitive?

### 3. What are xxx's legislations and policies about foreign investment cooperation?

- 3.1. What are legislations and policies about overseas trade?
  - 3.2. What's the regulation for market access of foreign investment?
  - 3.3. What's the regulation about enterprise tax?
  - 3.4. What's the preferential policy for foreign investment?
  - 3.5. What's the regulation for employment?
  - 3.6 Economic status of the Black people
  - 3.7 Can foreign enterprises own land in xxx?
  - 3.8 What are the laws and regulations of environmental protection?
  - 3.9 What are the regulations and laws on environmental protection?
  - 3.10 What are xxx's laws and regulations against commercial bribery?
  - 3.11 What are xxx's regulations on foreign enterprises contracted projects in local areas?
  - 3.12 What are xxx's protection policies for Chinese enterprises investment and cooperation?
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3.13 What are xxx's Intellectual Property Right (IPR) protection regulations?

3.14 What are the investment-related laws?

3.15 Which country's laws will be applied to addressing business disputes in local communities?

#### 4. What are the procedures for investment in xxx?

4.1 What are the procedures for enterprises registration in xxx?

4.2 What are the procedures for project contraction?

4.3 How can copyrights be applied and trademarks be registered?

4.4 What are the procedures for dutiable goods declaration?

4.5 How are the work permits to xxx conducted?

4.6 Which institutions can Chinese enterprises consult before investing in xxx?

#### 5. What are the precautions of Chinese enterprises' investment in xxx?

#### 6. How should Chinese enterprises build harmonious relationships with xxx?

#### 7. What should Chinese enterprises or citizens do when they encounter difficulties in xxx?

Appendix 1 List of xxx's partial government departments and agencies

Appendix 2 List of xxx's Chinese business associations, unions and major Chinese enterprises





Chinese Academy of International Trade  
and Economic Cooperation  
Ministry of Commerce

Research Center of the State-owned Assets Supervision  
and Administration Commission  
of the State Council

United Nations Development Programme China

