RESPONSIBLE COMPETITIVENESS IN CHINA 2009

Seizing the low carbon opportunity for green development

November 2009

Authors:

AccountAbility

WTO 经济导刊

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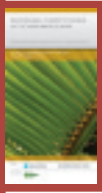

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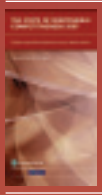

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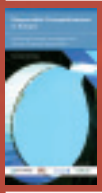

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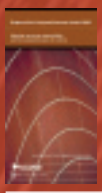

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AccountAbility and the Copenhagen Centre

Responsible Competitiveness: Corporate responsibility clusters in action, 2003
AccountAbility and the Copenhagen Centre

Corporate Responsibility and the competitive advantage of nations, 2002
AccountAbility and the Copenhagen Centre

Table of contents

Executive summary

Executive summary

Findings

This report finds that China's businesses have made significant progress towards responsible competitiveness in the past three years. Progress has been dramatic and unexpected given the global economic outlook. While performance is not uniform, there have been advances in the fields of governance, energy efficiency, human resources, supply chain management and the uptake and stewardship of voluntary standards and reporting.

In 2007, the Chinese business community strongly focused on compliance activities, according to responsible competitiveness benchmarks. ***Today, China is asserting its responsible and green business credentials, both at home and in global markets***. This report shows that responsible business practices are increasingly embedded in the country's emerging green industrial policy and low carbon development strategy. In some areas, China is set to leapfrog into the elite group of global green innovators.

China is implementing a wide range of policies to decouple industrial productivity and social development from energy consumption and carbon emissions. This track record has granted China a convincing voice in efforts to achieve a global agreement on how to manage the economic, social and environmental threats of climate change. China is now recognised as a part of the select group of countries that are doing most to investigate and devise policies to build low carbon competitiveness.

Responsible competitiveness in China, as in other countries, is being driven by leadership and innovation. The core challenge now is achieving a critical mass change and commitment in the business community. But the pathway to responsible competitiveness requires a supportive policy environment and the involvement of many stakeholders. Promoting additional drivers of responsible competitiveness, in the consumer and socially responsible investment markets, for example, will further incentivise business action.

Sweden, as a recognized world leader in responsible competitiveness, serves as a strong guide for China's efforts to maintain and accelerate its green and harmonious development trajectory. China's recent experiences also serve as important lessons in how to reinvigorate European models of responsible business.

The report identifies seven core areas used to identify and seize low carbon opportunities. For each of these areas, the report presents the latest trends and case studies which demonstrate how Chinese businesses are innovating

in order to create new green products and services and how new collaborations are forming to create new markets for the benefit of all. The experience of European businesses like Ikea and Arup is also instructive. The data and cases highlight good practice that can be scaled-up, shared and modified, both in China and in other countries.

The analysis presented in this report shows that China is developing a distinctive, low carbon, responsible pathway.

- ***Low carbon industrial policies offer Chinese businesses and consumers huge opportunities.*** For every US$100 billion invested in green technology and initiatives, GDP can grow by US$143 billion, tax revenues by US$1 billion, and household consumption by US$60 billion. For innovative businesses, this equates to immediate savings from energy efficiency and growth opportunities from new products and services in emerging market segments. Some of China's largest companies, like State Grid Corporation, are among the innovators.

- ***Responsible business ventures in China are now impacting global markets and relaunching China's brand***. Multinational companies like BASF, GE, and Intel, are making joint investments with Chinese companies to research and innovate a new generation of products and services for Chinese and international markets. China's foreign and domestic outsourcing investments and financial management are beginning to be targeted at socially and environmentally responsible locations. The result: Chinese companies, like BYD, Beijing Automotive Industry Company and Geely in the auto sector and Shenyang Power Group in the renewable energy sector, are acquiring international competitors in order to access new markets, technology and talent.

- ***Strong government leadership, incentives and supportive policies are playing an important role***. The 11th Five-Year Plan, the focus on green investments in the 2008/09 stimulus package and the meticulous research behind the Energy Research Institute's 2050 emissions pathway studies are three key components among a broader set of national policies and targets set by government to promote renewable energy, green jobs and energy efficiency. The results: China is now the world's largest producer of renewable energy; the auto industry has such high fuel efficiency standards that many global players cannot match them; cities like Chongqing in China's industrial heartland are redesigning themselves through eco-design and responsible investment.

Challenges

China's fast and green development pathway faces many challenges. Low carbon development is already evident in many sectors and provinces. But given the size of the country, achieving scale is a significant challenge. The State Administration for Worker Safety recognizes that reducing fatal accidents remains a critical task. Coal remains China's largest source of energy. Meanwhile, the ageing population will begin to affect the economy within a decade. China's responsible competitiveness depends on deepening the partnership between innovative business action, civil society enablers and ambitious government policy. China's geographic and policy diversity, coupled with uneven development, means that sustainable development challenges require increasing long-term global cooperation at all levels of business, society and government – including with many trading partners in Asia, the EU, Africa and the Americas.

Trends and opportunities in advancing responsible competitiveness

Responsible competitiveness is being harnessed to deliver on social development objectives. The report finds that China is achieving rapid reductions in carbon intensity while increasing human development, and this trend could accelerate. Green jobs require public policy and business action to invest in education and skills training. Companies like ZTE are actively investing in talent both in China and in their international locations. Building inclusive value chains into new industries, improving worker safety, addressing gender inequalities and engaging closely with civil society stakeholders are additional opportunities that green development can bring to Chinese society. In the global financial crisis, the core strengths of China's financial sector have become clear. Banks, such as the Industrial Bank of China, are gaining international recognition for their responsible investment strategies. Companies like Lenovo are advancing venture philanthropy and encouraging other companies to support the development of civil society in China.

Low carbon growth requires a focus on adaptation in order to support the most vulnerable. The ability of businesses to adapt to meet the needs of their customers and supply chains in a more challenging climate demands reconsideration of energy, water and raw material consumption, as well as overcoming awareness, knowledge and financing challenges. Companies like organic cotton producer Cyarn Textile Co. Ltd, and sustainable forestry business Sunshine Technology, are demonstrating how soil and water can be conserved and productivity enhanced. An empowered civil society will

enable businesses to adapt according to the needs and demands of society and consumers.

While business is the engine of responsible competitiveness, collaboration is central to progress. China is moving fast in its adoption, adaptation and creation of international voluntary sustainability standards. Businesses are stewarding, promoting and developing internationally recognized sustainability principles like ISO14001, the Forest Stewardship Council and the Equator Principles, and also developing "home-grown" standards such as the first domestic CSR management and reporting system, CSC9000T for textiles. Business-NGO partnerships such as WWF's work with companies on implementing energy savings goals, and sector collaborations to develop guidelines, such as those for the petrochemical sector developed by the China Business Council for Sustainable Development, have proven that seeking new alliances can add value to products and help overcome challenges that are too large to be faced by one company alone. A range of benchmarking and award schemes are now proliferating in the business community. Companies are disclosing their carbon emissions to the Carbon Disclosure Project. Government, NGOs and investors are enhancing their capacity to hold businesses accountable.

International collaboration is also essential to further the agenda. The low-carbon road is difficult and China's path is uniquely challenging. China and Europe are already collaborating to promote green development, notably in the areas of sustainability standards, responsible financing, knowledge sharing, technology transfer and dual-direction investment opportunities. Cooperation applies to bilateral government relations as much as it does to business-business relations. China's key partners beyond the European Union, including the United States, OECD countries, and multinational companies, are also committed to China's sustainable development. This includes bilateral cooperation such as that with the Swedish government and company involvement in China's eco cities. What is now needed is a grouping of all these resources into a centre of excellence and training that enables best practice to be widely available for Chinese businesses, policy-makers, consumers and regulators. The creation of such a Responsible Competitiveness and CSR Centre in China could consolidate the progress already made.

This report makes clear that ambitious and timely business action is at the core of green innovation and growth. Businesses have the capacity, expertise and speed to reshape economies for sustainable development globally. Led by giant companies like State Grid and BaoSteel, fast growers

like BYD and Suntech, SME clusters like Zhejiang's medicine makers and new eco-industrial parks across China, green and responsible business can be the new paradigm in China's competitiveness.

China and the long term trend of global Responsible Competitiveness

1

China and the long term trend of global Responsible Competitiveness

> *We should combine our efforts to address climate change with efforts to promote the growth of developing countries and build up their own dynamism for development and their ability for sustainable development."*
> **Hu Jintao**, President of the People's Republic of China, 22 September 2009[1]

Global efforts to tackle climate change will fundamentally transform societies and economies as we know them. However, transitioning to a low carbon economy, while challenging, will present abundant opportunities for product and service innovation, adaptation, and greener development paths. Aligning social and environmental objectives with productivity and innovation is the key to responsible competitiveness. It is the pathway to the low carbon economy.

The challenge ahead is tremendous. According to McKinsey, the transition to a "carbon-productive" world requires generating about US$740 of per capita GDP per tonne of CO_2 to about US$7,300 per tonne by 2050, a ten-fold increase. The International Energy Agency predicts that the Chinese economy could invest as much as US$ 80 billion in low carbon technologies by 2020 to meet a "best case" low-carbon scenario.[2]

But such a daunting goal is not impossible. The United States increased productivity ten times over from 1830 to 1955.[3] Mitigating carbon will require financing, technology transfer and carbon sequestration in various forms, and will hinge not only on international agreements but also on business action. Business will find the means of mitigating the effects of climate change, such as researching more drought-resistant crops, dealing with rising sea levels and providing micro-insurance. And business will find opportunity in the new markets that climate change will create, and will benefit from the development of more energy efficient technologies and energy supplies.

Globally, and in China, business is the catalyst of the low-carbon economy. Businesses have the resources, supply chains, skilled workforces and profit incentives to innovate and grow according to green development demands. But an entrepreneurial and innovative business climate is built upon supportive and incentivising public policies, and the involvement of stakeholders from consumers to media to NGOs. This report is about how business, government and civil society can together create low carbon prosperity through an approach known as Responsible Competitiveness.

1.1 Global Responsible Competitiveness

> *Five to 10 years ago, some people talked about China's "collapse" because they didn't believe China could sustain its development; three to five years ago, some people talked about the "China threat" because they were fearful of China's development; today people are talking about China's responsibility, but China should commit to common but differentiated responsibilities."*
> **Cheng Siwei**, Vice Chairman of the Standing Committee of China's National People's Congress
> February 2009, Davos[4]

Responsible competitiveness is the policies, business action and civil society enablers that transform global markets to reward sustainable development. Business action towards responsible competitiveness includes everything from minimizing carbon emissions and conserving water, to reducing energy consumption, improving workers' rights and implementing good governance systems.

Government efforts are also essential to set and enforce ambitious targets, supervise markets, and help businesses embed environmental "externalities" fairly in their cost projections. Civil society, meanwhile, has important roles with regards to contributing research, raising consumer awareness and pressure, independent media holding companies to account while promoting the cause of sustainability, and non profits supporting collaborative learning networks and vulnerable communities with expertise that neither business nor government possess.

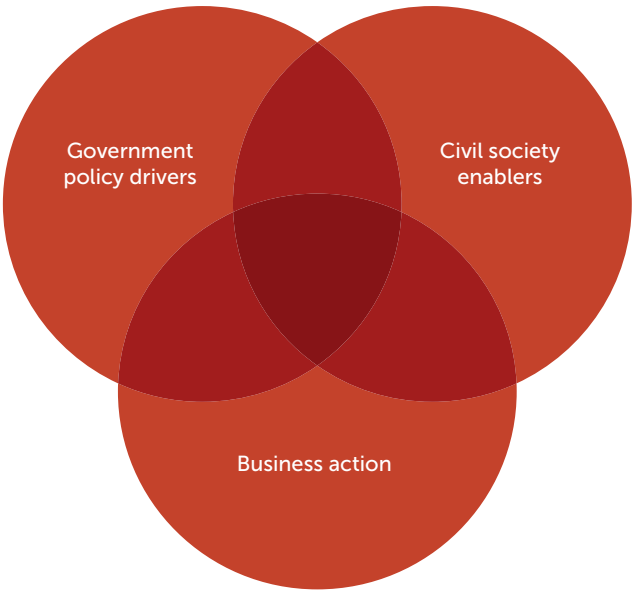
Since 2001, AccountAbility has produced biannual global reports highlighting opportunities for countries in sustainable markets. This work includes indexes like the Global Responsible Competitiveness Index (RCI) and regional indexes for the Arab world and Africa, as well as sector studies in three continents.[5] In China, initiatives include the Zhejiang Responsible Competitiveness Pilot Project, a report as part of *China's Sustainable Trade Strategy*, and the subsequent sister publication *Responsible Business in Africa: Chinese Business Leaders' Perspectives on Performance and Enhancement Opportunities*.[6]

In 2006, China WTO Tribune began publishing a *Responsible Competitiveness* book series in China highlighting business cases where companies are making money through responsible business action. China WTO Tribune's work on Responsible Competitiveness in the Yantai development zone has brought together regional leaders to discuss how local officials are

implementing Responsible Competitiveness policy measures to enable businesses to take advantage of sustainable development.

Figure 1. The Reponsible Competitiveness framework

Source: AccountAbility analysis



Responsible Competitiveness builds on the CSR agenda to increase impacts in regional, domestic, and international markets. The framework is used to better understand how policy makers, business action and social enablers contribute to building an inclusive, fair and low carbon economy. Responsible Competitiveness means strong government agendas that encourage companies to perform to high expectations. Companies then provide the muscle and know-how. Meanwhile, civil society provides new opportunities to engage with stakeholders, spread knowledge, educate consumers, and provide credible third party assurance and certification.

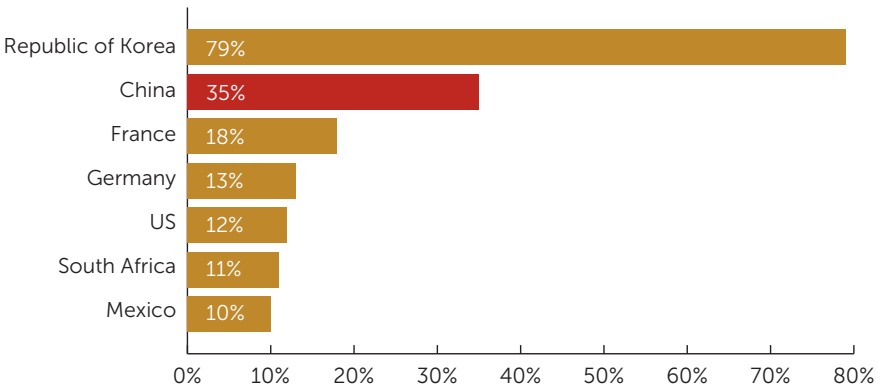
1.2 China's progress to date

> *Developing a low carbon economy will not only help resolve conventional environmental problems and climate change, but at the same time will help resolve China's energy resource bottlenecks, improve overall competitiveness, and spur energy reducing and environmentally friendly social construction."*
> **Wu Xiaoqing**, Vice Minister, Chinese Ministry of Environmental Protection[7]

The success of global efforts to promote sustainable development relies in large part on the growth pattern that China follows. In turn, China's contribution to the global Responsible Competitiveness agenda will depend in part on ensuring that its progress towards sustainable development is recognized in global markets. China's progress on responsible competitiveness to date is far-reaching, and has been promoted by business leadership, government interventions and civil society. This section summarises some of the biggest achievements in green development and low carbon growth.

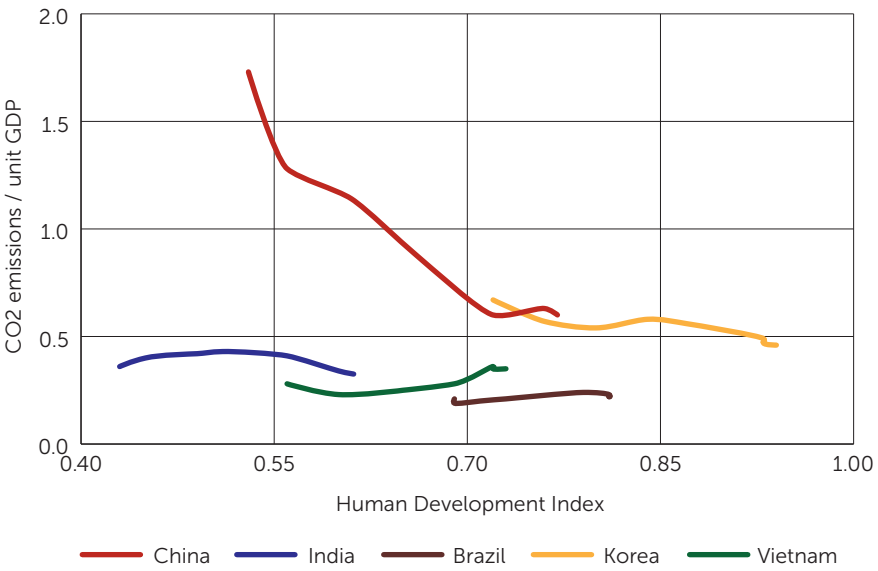
- **Strong target setting, leading to active support**
  Resource saving and the reduction of emissions intensity has became a reality as a result of the ambitious targets of China's 11th Five-Year Plan, which set out goals to reduce energy intensity per unit of GDP by 20% and the reduction of key pollution emissions by 10%. China is already on track towards achieving the 2020 goal of 15% of energy production produced by renewable energy sources. Many provinces are achieving even higher numbers.[8] The extent of "green" investment is also evident in the 2008/09 stimulus package in response to the global economic downturn, and is even more impressive when compared to some of the world's largest economies and low carbon leaders (see Figure 2 below).

Figure 2. Country comparison of green stimulus packages
Source: HSBC Global research, 2009[9]



- **Linking green development with human development**
  The correlation between economic development and human development is not always closely linked, and this is particularly true with regards to energy emissions. Figure 3 illustrates China's achievements relative to economies at a similar stage of development: as China's human development has improved, China's overall emissions intensity has decreased substantially. On the other hand, Vietnam and Brazil have increased their overall emissions per unit of GDP as human development has improved.

Figure 3. Emissions intensity and human development in China, 1980-2007
Source: AccountAbility analysis of UNDP/IEA data, 2009



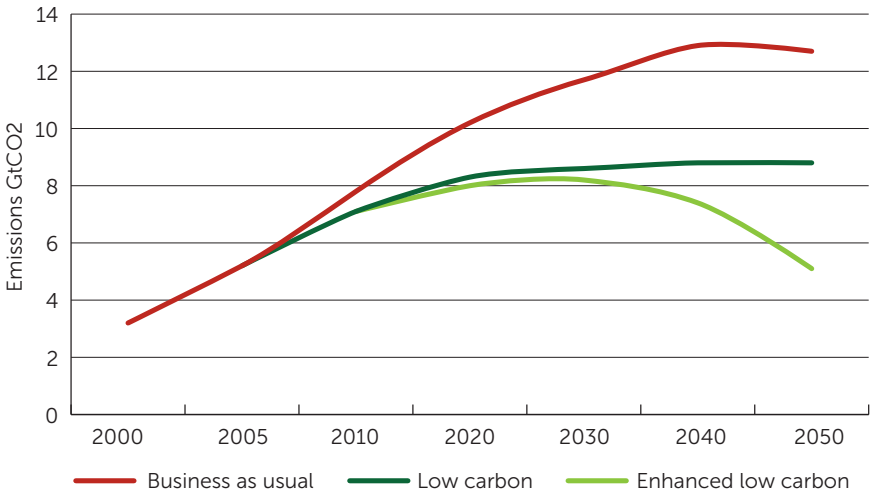
- **Growth of green industries**
  Fuelled by commitments made in the Five-Year Plan from 2006, annual growth in China's green industry services is expected to reach 15%, equivalent to a gross output value of US$126-157 billion by 2010 or 3.4% of GDP. These investments are driven by the opportunity that green investment will provide. As a result of this investment, China is the world's largest producer of renewable energy. While some 95% of China's renewable energy comes from large dam projects such as the Three Gorges Dam, China has also become one of the largest global wind power markets alongside the US and Spain.[10] While the green credentials of the solar PV manufacturing process are questionable, the end product is a form of clean energy and therefore has value in the low carbon economy. China is now the world's largest solar water heater manufac-

turer, with 60% of the global market. The solar hot water sector alone employs over 600,000 people, is worth US$2 billion per year and is growing at an annual rate of 20%.[11] It will be important for China to follow the example of Germany, Korea and others to raise energy efficiency standards and reduce the use of toxic chemicals in the manufacturing of solar panels.

- **Low carbon growth scenarios**
  Innovative work by the Energy Research Institute under China's National Development Reform Commission identifies potential scenarios for China's low-carbon development. Published in 2009 with wide collaboration, these scenarios do not constitute a policy commitment but the research does illustrate the possibilities for low-carbon growth in China. Figure 4 illustrates how a "business as usual" pathway would compare against low carbon and an enhanced low-carbon approach.

Figure 4. Possible low carbon pathways in China

Source: Energy Research Institute, 2009[12]

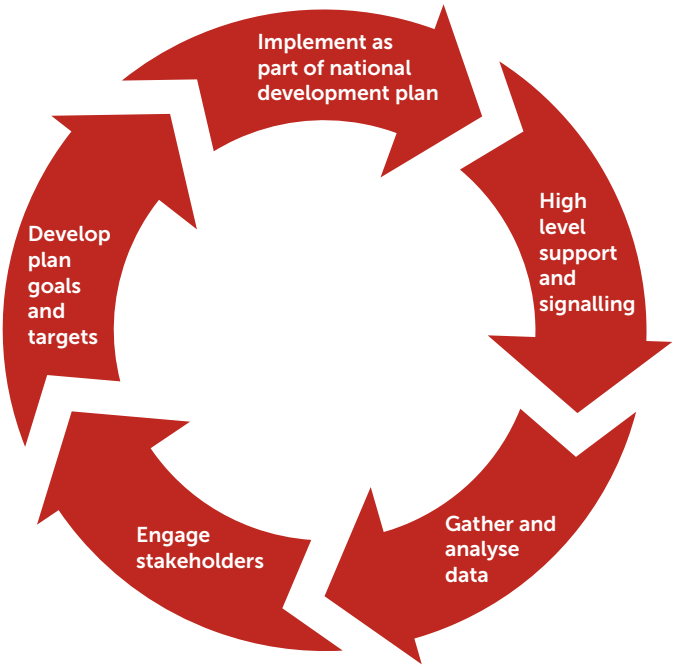


To understand better how such analyses can contribute to the develop of a low carbon growth strategy, Project Catalyst (an initiative to provide analytic and policy support for the United Nations Framework Convention on Climate Change started in May 2008) has developed a framework to advance good practice in low-carbon growth planning.[13] Applying learning from the experience of other large-scale development processes such as Poverty Reduction Strategy Papers (PRSPs) and national development plans in countries such as South Africa, Mexico and Brazil. Figure 5 illustrates how China could further develop its strategies for low-carbon growth.

Figure 5. A framework for good practice in low-carbon growth strategies

Source: AccountAbility for Project Catalyst, 2009[14]

Development steps



Content elements

1. Development priorities and how they relate with a changing climate and GHG emissions
2. Baseline setting: development plans and obstacles, vulnerability, GHG emissions
3. A long term vision for an economy with low GHG emissions and low vulnerability to climate change
4. Adaptation plan (NAPA), specifying what actions are to be undertaken to move towards a climate resilient society and economy
5. Mitigation plan, specifying what actions (NAMAs) are due to be undertaken to move towards a low emissions economy
6. Identification of what can be achieved without assisstance and what could be achieved with international support
7. The incremental cost of the individual NAMAs and NAPAs and all technology, financing and capacity building support needed to implement the plan

- **Widespread progress across the country**
  Many international reports focus in on a few well-known case studies of responsible business from the Pearl River or Beijing. Yet China's achievements are not limited to the most developed and urban provinces, but can be seen across the country.

Figure 6. Chinese regional progress in a low carbon economy

Source: AccountAbility analysis

- **North**
  Beijing: central laws and guidelines pertaining to sustainable development, detailed below. Beijing is host to many innovative independent initiatives that spur companies to greater levels of transparency and green development such as the China WTO Tribune's "Golden Bee" awards for sustainable enterprises

Shandong: Himin Solar Energy Group developing clean energy sources[15]
Tianjin: Partnering with Chicago Climate Exchange, preparing for a domestic carbon trading market[16]

- **Northeast China**
  Dalian: First City Green Carbon funds resulting from collaboration between government and leading companies (the "China Green Carbon Foundation Dalian")[17]
- **Yangtze River Delta Region (Shanghai, Zhejiang, Jiangsu)**
  Nanjing: leading in knowledge-related outsourcing
  Shanghai: growing financial centre has adopted city-wide guidelines on CSR promotion that stress inclusiveness and media participation. In 2008 the Shanghai Stock Exchange issued guidelines on company environmental disclosure and CSR reporting
  Zhejiang: China's first province to issue CSR guidelines
- **South Coast (Hainan, Hong Kong, Guangdong, Fujian)**
  Shenzhen: Vanke taking the lead in setting up the Green Building Standard, and Shenzhen Stock Exchange produced *"social responsibility guidelines for listed companies"* in 2006
  Regionally: Early contact with global supply chains and an early lead in the ICT industry means companies are familiar with internal supply chain audits, both the benefits (long-term contracts, better relationships, etc) and the drawbacks (such as "audit fatigue" from too many standards)[18]
- **Southwest and Western Central**
  Hunan: Engaging with the Climate Group, implementing technology innovation and reducing carbon emissions by 75%[19]
  Chongqing: Implementing low carbon production, consumption and industry restructuring[20]
  Sichuan: Embedding low carbon strategy into companies involved in the reconstruction work in the post-earthquake era[21]
- **West China**
  Inner Mongolia: large-scale wind power generation projects and reforestation projects

- **Companies are uncovering the link between responsibility and profit**
  In 2009, 81% of business leaders surveyed by *Fortune China* magazine said they believed there was a strong link between "social and environmental responsibility" and "business performance in the long run".[22] The creator of China's first Socially Responsible Investment (SRI) fund is optimistic about the prospects of embedding responsible business practices with China's future growth. According to Xu Dawei of AEGON-INDUSTRIAL Fund Management, "The Industrial Social Responsibility

Securities Investment Fund is one of the best performing funds in China. It has grown by 150% to 3.4 billion shares since its inception in April 2008. So many investors are interested in our fund, and we currently don't know whether it is simply because of the fund's great financial performance or because investors agree with our socially responsible investing methodology. But, we do believe that socially responsible investments brought us excess returns, which attracted a lot of investors."[23]

- **The uptake of standards for sustainability**
  Chinese businesses have started applying international voluntary sustainability standards, from environmental efficiency (ISO14001) to guidelines on project investment for the banking sector (the Equator Principles). Chinese stakeholders are also increasingly participating in the governance of these international standards through institutions such as the International Standards Organization. According to research by AccountAbility, the International Institute for Sustainable Development and the State Council's Development Research Centre, Chinese companies are gaining confidence but still lack experience in dealing with some international standards bodies and their processes. To date, Chinese companies have begun to engage strongly with process-related standards such as the GRI or ISO, or environmental standards such as the FSC. Meanwhile, Chinese companies have participated less in standards with unclear governance or unclear modes of implementation.[24] China also has ambitions to increase the application of and alignment with international standards and the development of "home-grown" standards.[25] Many commentators point out that there remain some issues for convergence between Chinese and international standards, including freedom of association and collective bargaining.

- **Business innovation**
  Linking sustainable development and the development of new techniques and technologies. China's innovation potential is being unlocked by new venture capital funds, access to international capital, and organizations that help bring ideas to market. Education, often led and influenced by business, will also be important in helping China's rural population achieve higher levels of education.[26]

- **The "Green" suite of policies**
  Green credit, green consumerism, green securities, green energy, green cities, and other green policies that not only look environmentally friendly, but also save resources, reduce pollution, and improve the lives of citizens in China and elsewhere.

- **Consumers**
  With the expected growth of China's domestic consumer economy and enabling public policies, China's consumers are increasingly using their spending power to make their voices heard. According to one study, 96.6% of Chinese consumers make purchases based on company image when all other conditions are similar. When prices are "more or less the same", 80.3% of consumers choose products from companies with a positive image.[27] In the 2009 "Greendex" by National Geographic and pollsters Globescan, China ranks third out of 17 countries for environmental consumer action, which reflects the country's rapidly changing development level.[28]

Challenges

In spite of this progress, several challenges remain with regards to sustainable development and competitiveness. Responsible Competitiveness, however, transforms these challenges into business opportunities. Such challenges include:

- **The coal dilemma.** According to the latest figures, around 70% of China's electricity is still generated from coal.[29] While investment in renewable energy and associated production is increasing, reducing reliance on coal will require further significant efforts.
- **The wider threat of climate change.** Climate change demands a comprehensive response, so that countries not only reduce emissions, but are also able to adapt to new climatic conditions such as changing weather, water shortages, health problems, and other issues caused by climate change.[30]
- **Chinese company learning networks.** AccountAbility's work with the Chinese State Council's Development Research Centre on Chinese companies in Africa shows that Chinese companies often lack critical channels to hear and learn from non-governmental actors in countries where they operate, creating potential social and reputational risks.[31]
- **Transforming to closed-loop supply chains or "circular economy".** Current supply chain practices operate vertically without thorough consideration of how waste and end products can be recycled, transformed into useful materials, or converted to energy. This refers even to machinery used to produce clean energy, such as solar PV panels.
- **Addressing regional variations.** While progress on responsible competitiveness is widespread (illustrated in Figure 6 above), efforts to support outlier provinces will have to be increased for China to achieve a responsibly competitive national economy.
- **Inclusive growth of underprivileged groups.** Low carbon growth and green development cannot be the preserve of the wealthiest. Decoupling

the low carbon agenda from decent work conditions and inclusive growth will perpetuate inequality and increase exclusion. Instead, supporting vulnerable communities to adapt to climate impacts will be key to achieving sustained responsible competitiveness.

- **Business climate.** Responsible competitiveness relies upon a sound business climate that promotes transparency, prevents corruption and upholds integrity. These actions then require the right mix of internationally accepted standards and reporting to act as market signals that will reward such advancements.
- **The use and shaping of voluntary sustainability principles and standards.** Chinese companies lack broad experience domestically dealing with the whole range of sustainability standards, which, if overcome, can help reduce international cultural and management conflicts, lessen "soft" barriers to trade and investment, and improve social and environmental outcomes. Local and central policy makers are already considering ways to spur Chinese involvement in the shaping and use of these standards, but more can be done at the company level, especially in China's development zones.
- **High percentage of GDP and energy use from manufacturing.** Reducing pollution and carbon emissions in part relies on reducing the use of energy by industry. For example, ongoing research between the UK's Carbon Trust, researchers at Peking University, the NDRC, and industry aims to search for efficiency gains.[32]

1.3 The Roles of Business, Government and Society in China's low carbon growth

Applying the Responsible Competitiveness framework illustrates how business, government and society all contribute to this strategy. Section 1.2 above describes how China has already made great progress towards developing a low carbon economy. This section summarises the strategies already taken, as well as those further required, to keep progressing the low carbon agenda and seize the significant opportunities that this growth path provides.

Business

> *"Competition between multinationals has already transformed from hard competitiveness to soft competitiveness, from simple reliance on technology and product competitiveness to reliance on concepts like CSR and social ethics. Advanced corporate responsibility ideas and practices already constitute the heart of business competitiveness."*
> **Wei Jiafu**, President, COSCO

China is entering a stage in which it is able to take advantage of responsible competitiveness in a comprehensive way. Companies can use this as a new growth model by making profits while using their distinctive advantages to mitigate social and environmental issues, or even use these issues as a source of profit. Companies have already started making responsible competitiveness a central part of their core competitiveness.

- **Sector-level strategies interventions**: Several sectors such as wind energy and electric cars are already seizing the opportunities brought by incentivised investments, new markets and advances in technology.

- More **transparency and disclosure**: Chinese companies are issuing sustainability reports to the standards of global best practice standards using GRI, AA1000, Carbon Disclosure Project, and others.

- **International Sustainability Standards or Principles**: China is seeing strong growth in standards like ISO14000, the Forest Stewardship Council, and in standards for green buildings. Chinese companies are beginning to engage in the development of international sustainability standards.

- **Collaboration**: Businesses are collaborating to address common problems, for example the China International Mining Group, a non-profit

group comprised of all the major mining companies, is working with Chinese stakeholders to improve practices in the mining industry with regards to worker safety, environmental protection and community relations.[33]

Government – Central Level

> *"Under the conditions of in-depth development of economic globalization, enterprises should establish the concept of global responsibility, include social responsibility in their management strategy on their own, abide by the laws in the country where the enterprises operate and international common business practices, improve their management models, and pursue unity of economic results and social results."*
> **Hu Jintao**, President, People's Republic of China, 2008[34]

The Chinese government increasingly leads in helping Chinese businesses comply with environmental and social laws and standards as part of their basic development capacities, and is encouraging companies in China to follow low carbon competitiveness strategies. What is government's role in promoting responsible competitiveness?

- **Government Policy**: These measures include the 10th five-year plan that emphasises energy intensity reduction and pollution reduction, new environmental laws, the new labour contract law, and the 2005 "company law" (that came into effect on January 1, 2006) that first outlined the need for Chinese companies to comply with "corporate social responsibility" (CSR) guidelines. Renewable Energy Law in 2005; National Building Codes established to increase energy efficiency. According to a survey designed by AccountAbility and conducted by *Fortune China* magazine since 2007, China's top managers have ranked "lack of law" and "lack of knowledge" as the key obstacles to "businesses operating in a more socially responsible way", thus presenting policy-makers with a clear indication of their needs.[35]

- **Policy guidance:** The Chinese Premier Wen Jiabao's inspection trip to Gansu to promote ecologically-friendly development sends a clear message about where the Chinese economy is expected to develop.[36] This also includes encouraging businesses to take up the corporate social responsibility agenda, such as the 2008 State-owned Asset Supervision and Administration Commission's (SASAC) *Guidelines to Central State-Owned Enterprises on Fulfilling Corporate Social Responsibility*, which emphasizes both compliance with existing legal requirements and

enacting voluntary measures such as sustainability reporting and CSR management systems. China's new human rights plan, along with international human rights work such as Sweden's provide new opportunities to highlight key connections between human rights and business in China. The Ministry of Environmental Protection has also developed a range of policies and green standards for Chinese companies, consumers, and markets, especially regarding environmental impact information management and disclosure.

- **Target-setting and measuring progress**: The Chinese government has set many goals including the Renewable Energy Goal of 15% by 2020; Energy Efficiency Targets for Top-1000 Chinese Companies that make up one-third of nation's total energy use; Passenger vehicles had to meet fuel economy standards of 36 miles per gallon (approximately 15 kilometers per liter) by 2008.[37]

- **Government convening power** and promoting business collaboration: government convening power is evident at the international, national and local levels. The Sixth Meeting of the EU-China Round Table, for example, concluded with a joint declaration calling for a dialogue at EU-China civil society level regarding water management.[38]

- **Promoting investment in green technology** through subsidies and tax breaks. Government investment in developing renewable energy industries has resulted in a rapid growth of the electric car sector, solar PV and wind turbine manufacturing.

- **Raising consumer awareness**: This includes consumer product efficiency standards and household appliance labels, and can be expanded to include Fair Trade products.

Government – Local Level

Provincial, city, and other local level government leaders in China have made significant advancements in promoting CSR and responsible business. Promoting green growth at the local level is beginning to include:

- **Collaboration**: Provincial leaders in Zhejiang have worked with international and Chinese research organisations, industry associations, the Sino-German CSR Project on responsible competitiveness strategies for the medicines and textiles sectors.[39]
- **Involving civil society**: Since early 2006, Shanghai's Pudong New District has been actively promoting the growth of grassroots non profit organisations through the Non Profit Incubator (NPI), which has now expanded

to Beijing and Chengdu. NPI's stated goals are to foster start-up NGOs and social enterprises, provide professional training for practitioners, strengthen networking among NGOs, media, government, and the private sector, and improve the policy environmental for civil society in China.[40]

- **Stakeholder Participation**: The All China Federation of Trade Unions in the Zhejiang county of Yiwu has developed a CSR evaluation system that leverages and raises awareness amongst companies. Company data is independently evaluated by experts from Zhejiang University and the certification company Bureau Veritas. Then the wider public votes for the top companies via mobile phone.[41]
- **Evaluating Enterprises**: The city of Wenzhou (famous for the "Wenzhou model" of entrepreneurship and minimal government role) in Zhejiang created China's first system to evaluate the CSR of private enterprises.[42]
- **Implementing standards**: Provinces like Zhejiang, Jiangsu and Guangdong have created regulations and systems to stimulate CSR development, while Shandong's Department of Industry and Commerce (*gongshangting*) has promoted an indexing system and a CSR association that incorporates over 4,000 enterprises.[43]
- **Influencing investments**: Directing green capital to future mega-cities like Chongqing or counties in Jiangsu province where officials are saying no to polluting companies and yes to higher standards of responsible competitiveness.[44]

Social enablers

> *Our collective challenge and opportunity is to promote responsible competitiveness between companies, communities, and nations that advances economic development in balance with social and environmental imperatives."*
> **Fredrik Reinfeldt**, Swedish Prime Minister, Beijing
> April 2008[45]

As of 2008, the Chinese Ministry of Civil Affairs shows that China officially has 413,660 registered nongovernmental organizations (NGO).[46] Unofficial statistics on the other hand tell a different story. One of China's leading experts on NGOs, Professor Wang Ming of the Tsinghua University NGO Research Centre, puts the scope of the number of Chinese NGOs closer to 3,000,000. This difference may be explained by the fact that the Ministry of Civil Affairs' statistics are based on actual registered NGOs, whereas Professor Wang's research involves rigorously culling through old periodicals to find groups that act as NGOs but have not officially registered.[47] Still, much can be done to improve the professionalization and accountability of China's

burgeoning civil society sector. The government's proposed reforms to expand registration options for NGOs in China will help broaden the scope and potential of civil society to promote responsible competitiveness.

China's domestic think tanks as well as relationships with international academia and research institutes continues to mature, as exemplified in the June 2009 Global Think Tank Summit which was attended by hundreds of officials, scholars and intellectuals who met with over 200 companies. China has a growing number of high-level think tanks such as the China Centre for International Economic Exchanges, the Chinese Economists 50 Forum, Peking University's China Centre for Economic Research, the Chinese Academy of Social Sciences and the State Council's Development Research Centre.[48]

Civil society is also highlighting responsible business practices. The Philanthropy Times measures how much money companies donate to charity. China WTO Tribune annually rewards companies for good practice in the Golden Bee Honour Roll, in association with CSR Europe and other partners. Other awards systems rely on publicly disclosed information.[49]

Business associations (sectoral and provincial) are engaging in creating and stewarding standards and management systems, such as the Cement Sustainability Initiative, Responsible Care, and the CSC9000T. Consumers, meanwhile, are increasingly important, especially in China, where consumer spending is expected to increase dramatically over the next decade.

Other important resources for responsible competitiveness practitioners include:

- The Sino-Swedish CSR site: a place for updated case studies, news, and discussions about responsible competitiveness: **http://csr.mofcom.gov.cn**
- The China CSR Map supported by the Sino-German CSR cooperation (made up of the German Technical Cooperation (GTZ) and the Chinese Ministry of Commerce), SynTao and the China Credit Information Service: www.chinacsrmap.org
- Responsible Competitiveness: Global updates on the Responsible Competitiveness program: **www.responsiblecompetitiveness.org**

Conclusion

China's challenges are large, but so are China's opportunities. Scaling up sustainable development so that it is embedded in the core of government policy, business action, and civil society is a challenge common to all countries. The following section of this report focuses on key areas to make this opportunity a reality.

Seven core areas of Responsible Competitiveness

2

Seven core areas of Responsible Competitiveness

> *CSR contributes to scientific social development and a harmonious society, and is of great significance to comprehensive, coordinated and sustainable development of the economy. Sweden, with its well-developed market economy, leads the world in building CSR; while China, as a rapidly-growing emerging economy, is actively promoting CSR."*
> **Chen Deming**, Minister, Chinese Ministry of Commerce
> 18 May 2009[50]

As noted in the previous section, and highlighted by Minister Chen Deming, business responsibility is being actively promoted in China, with leadership from all actors in the country: public policy-makers, business leaders, local government, regulators, consumers, academics and social and environmental organizations.

This section is a more systematic assessment of national progress, looking in turn at seven core areas of Responsible Competitiveness. In a series of national benchmarks, it has been ascertained that each country has its own unique strategy to achieving responsible competitiveness. It is therefore helpful to look in depth at each area, to identify China's particular challenges and opportunities. Figure 7 below illustrates the seven core areas that are required to build responsible competitiveness.

Figure 7. Seven core areas of Responsible Competitiveness

The seven core areas of responsible competitiveness can be summarised in Table 1 as follows:

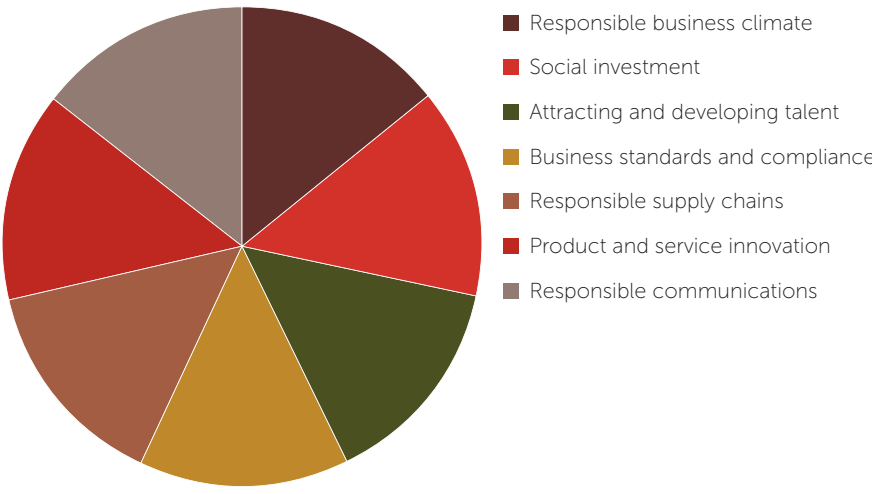


Table 1. Core issues of Responsible Competitiveness

Seven Areas	Explanation	Issues
Responsible Business Climate	How business, government and other stakeholders such as the media can contribute towards raising the bar in areas of basic business practice that link to a fair and responsible business climate. Issues include financial management, corporate governance, competition and transparency.	• Ethics and governance • Corruption • Ownership • Creating cluster, city, provincial, regional and sector-level enabling environments
Social investment	How businesses can deploy their core competencies to make leveraged contributions to the host communities they operate in, building social and sustainable development that in turn benefits the business.	• Growth of NGOs • Business-NGO partnerships • Socially Responsible Investment • Government support to civil society
Attracting and retaining talent	Considers how business, government and society can drive the economy by encouraging a thriving work force through improving the education system, employee rights and benefits, training and career development and equal employment opportunities.	• Quality of education • Low carbon jobs • Investing in employees
Business standards and compliance	Quality standards, corporate ethics, health and safety standards and environmental policies above and beyond mandatory requirements and legislation, including the use of voluntary sector standards, guidelines or principles.	• Government targets • Sustainability standards • Consumer-facing labels • Sector collaboration
Responsible value chains	How companies are working to improve social and environmental issues and performance within their supply chain, and how employees and other stakeholders are impacted by supply and value chains.	• Supplier relations • Cluster development
Product Service and Innovation	How firms innovate to create new products and services that address important social and environmental challenges and opportunities, as well as the role of government and society in promoting innovation.	• Research and patents • Entrepreneurship and market development • Product innovation and adaptation
Responsible Communications	How well companies use effective, honest, and transparent communication internally and externally, and how other stakeholders impact, utilize, or promote such communication.	• Production of inclusive, two-way communications on sustainability • Communicating green and social information about products and services

In the following sections, each of the seven core areas are assessed in depth to explain the key issues and identify examples of internationally recognised good practice as well as any remaining challenges. It should be noted that researchers and policy-makers are using this form of RC pathway analysis in a range of company, sector, city, provincial, national and regional benchmarking studies. For example:

- In ***Saudi Arabia***, the annual Responsible Competitiveness Award promoted by the General Investment Authority and King Khalid Foundation is used to incentivise the top 100 Saudi Arabian companies to raise performance and share good practice;

- In ***India*** and other outsourcing destinations, the approach has been used to identify opportunities and liabilities in the fast-growing IT Enabled Services and Business Process Outsourcing sector;

- In the ***Arab World***, a multi-country study into responsible competitiveness performance showed that fostering talent and innovation should be priorities, helping to inform the Arab Leaders Sustainability Group of appropriate strategies;

- In ***Chile***, a three-sector study by the University of Valparaiso supported by the Inter-American Development Bank has identified a set of key performance indicators for environmental and social management;

- In ***southern Europe***, the emerging Socially Responsible Investment market has been supported by a capacity building on how to marry investment decisions with social and environmental performance that are most required for banks.

The Responsible Competitiveness approach has also been helpful in China – at national and provincial levels. Through 2008 and 2009, businesses and local policy-makers in Zhejiang's textiles and medicines sectors used the framework to identify opportunities for management and stakeholder engagement, supported by the Sino-German CSR Project. In April 2008, the Chinese-language *Responsible Competitiveness 2007* benchmark report was co-published by China WTO Tribune the CSR Development Centre and AccountAbility. Using 21 key indicators from the global Responsible Competitiveness Index, the report showed that China was paying particular attention to the business standards and compliance step. As such, it was classified in 2007 as being at the "Complier" stage. Since then, China has made progress toward becoming an "Asserter" of responsible competitiveness.

In the sub-sections below, China's recent performance on key responsible business indicators is examined in detail. Taking each of the seven core areas in turn, progress in business action, government policy and societal enablers is identified, and each sub-section concludes with remaining opportunities and challenges.

2.1 Responsible Business Climate

> *Certainly the transparency we've established in the company made us far more attractive. Investors knew we were prudent and responsible and had ethical business practices."*
> Chinese Senior company executive, Plantation Timber Products[51]

The right business climate is essential to promoting responsible competitiveness. A responsible business climate built by companies, government and other stakeholders can influence, foster, and reward the way companies operate responsibly. It is the bedrock of sustainable development. It is about both the minimum requirements of legislation, as well as voluntary corporate action to expand ethical practice and market signals sent by government to encourage investment and infrastructure development. Core issues include corporate ethics, governance, disclosure and measures to reduce corruption, as well as the inputs required to create an enabling policy environment.

Ethics and governance

In the 2009 *Fortune China* CSR Survey, business ethics ranked third in the list of options that managers considered part of corporate responsibility, at 89%, while corporate governance jumped almost 30% from 2007 to 2009.[52]Increased public disclosure and improved corporate governance are the main avenues that business follows. A 2007 report produced by UNCTAD benchmarked Chinese corporate governance performance against standards set by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).[53] China fared well, with relatively high rates of corporate governance disclosure among the 300 companies selected at random from the China Stock Index. More disclosure in the area of corporate responsibility and compliance was recommended.

Some companies are leading the way with disclosure practices on sustainability issues. The Industrial Bank of China has committed to the financial sector's Equator Principles, and as such reports on the expected environmental impact of its project and infrastructure investments. In recognition, IBC won the *Financial Times* Emerging Markets Sustainable Bank of the Year award in May 2009.[54]

Transparency

It is well known that corruption can cost economies, but countries can significantly improve transparency through smart action. Sweden, for example, as early as 1766, instituted "sunshine laws" on officials disclosing their assets over time, which has proven to be a highly effective model to curb

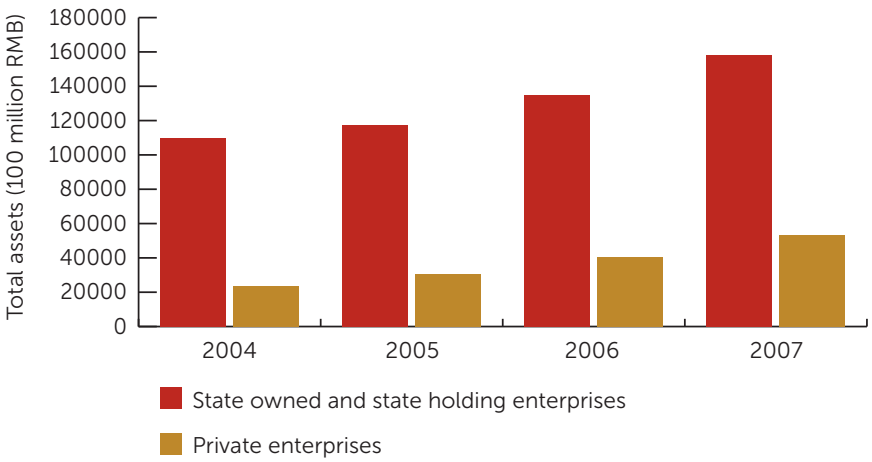
corruption.[55] Equally, since 2007, China has ordered local officials to disclose income and has set targets to build a basic framework of punishing and preventing corruption by 2010.[56] China has also ratified several UN Conventions in this area, including the ADB–OECD Anti-Corruption Action Plan for Asia-Pacific, the UN Convention against Corruption and the UN Convention against Transnational Organized Crime.

Ownership structures

Ownership structures are widely understood to impact the ways in which responsibility is promoted. Figure 8 shows how the number of assets held by both state-owned enterprises (SOEs) and private enterprises is increasing, although the total number of state-owned enterprises is falling. Owners have different roles in promoting responsible business. SOEs benefit from being able to coordinate resources for sustainability centrally when making difficult cost/benefit decisions. Chinese SOEs have been contributing to social needs since their inception in the 1950s and 60s, and many state-owned companies are progressing quickly, working to implement the January 2008 SASAC *Guidelines on Central SOEs Implementing CSR*. Some SOEs are still strapped with legacy projects such as schools or hospitals. CSR reports and attention to social and environmental management gives SOEs a chance to communicate more directly with the public. Since the 2008 *Guidelines,* Chinese SOEs have been "competing up" to design the best internal management systems and issue reports according to both Chinese and international guidelines.

Figure 8. Growth in assets of Chinese enterprises

Source: National Bureau of Statistics[57]



Privately-owned businesses are faring well financially to the extent that in the 2008 "rich list" the majority on the list came from publicly traded firms.[58] The *Corporate Governance Assessment Report on the Top 100 Chinese Listed Companies* found that enhancing risk management and internal control are top priorities, and the financial sector was found to be the best performer. Competition was found to correlate positively with corporate governance performance.[59] Action has also been taken against privately-owned companies. Following a fraud scandal in 2000, the *Corporate Code of Governance for Listed Companies,* based on the OECD Guidelines for Corporate Governance, was issued by the China Securities Regulatory Commission. The Code lays out the rights of shareholders, election procedures and duties for Directors and disclosure requirements.[60] Further promoting good corporate governance practice will improve disclosure of financial and governance information, and increase the inclusion of minority shareholders.

Creating a strong enabling environment

> *"Macroeconomic stability, social inclusion, environmental protection and corporate responsibility are not conflicting objectives. On the contrary, the objectives towards responsible competitiveness and a harmonious society are mutually reinforcing."*
> **Ewa Björling**, Swedish Minister for Trade[61]

Government also has a role in promoting a responsible business climate through regulatory bodies, for example the Shanghai and Shenzhen stock market regulatory bodies' CSR actions including the Shanghai Stock Exchange launch of a Corporate Governance Index in 2007 and a Social Responsibility Index in August 2009. The latter index lists 100 companies with good CSR performance based on a customised rating system. The Chinese Banking Association has issued guidelines on member companies implementing CSR.

Competing in the low-carbon economy requires far-sighted infrastructure decisions. Countries that invest in low-carbon buildings, energy distribution networks and transportation systems nurture high-performing businesses. Enabling these markets to flourish is one of the critical roles that government can play to support low carbon development. The two case studies below illustrate how government, as a key investor in the economy, can support the development of a low carbon economy and green buildings in cities and in sectors.

Case study I: Building Green Cities

> *"There could be a real green building revolution in China when green projects start spreading from tier-1 cities to tier-2 and 3 cities. That will also prompt the cement industry and other building material suppliers in China to get on the green bandwagon. And then it will become cheaper for the entire world to make green buildings as China is the supplier of the world."*
> **Geoffrey Lewis**, Tsinghua University's Department of Building Sciences[62]

Over 50% of all new building construction is now taking place in Asia, mainly in China.[63] The proportion of Chinese living in urban areas has doubled between 1980 and 2005, and is expected to reach 1 billion by 2030. According to McKinsey analysis in 2008, China will need to build 40 billion square feet floor area in the next 20 years, constructing up to 50,00 new skyscrapers.[64] Such increases in construction will apply significant pressure to water resources and energy consumption, requiring planning and implementation of green cities and low-carbon zones.

China has made significant progress in piloting world-class eco cities, low-carbon zones, and eco-industrial parks. Ramping up eco city development to embed sustainability in everyday cities presents business leaders and government officials operating in China with huge challenges, but equally huge opportunities. Green cities such as Guiyang and the proposed development of Dongtan demands strong government strategy. China's leading commercial building company Vanke, recently created China's first LEED-certified building to source materials entirely from China. While LEED certification is a good start, it is not a particularly high standard when compared to those that seek to achieve building or city carbon neutrality such as eco-cities being built through formal cooperation with pioneering governments Singapore and Sweden, leveraging resources from the leading Chinese and global firms.

Many believe the key to green cities is measuring environmental effects and then getting them embedded into city plans. Tony Chan, a senior planner in Shanghai at the global design consulting firm Arup, says

"everyone's talking about eco cities and sustainability, but few people are quantifying. We have learned that implementation is key including ensuring recommendations are replicable, scalable, enforceable and have market acceptance." Implementation in green city planning means ensuring sustainability indicators, especially low carbon indicators, can be incorporated into statutory plans, including guidelines and regulatory zoning plans. Arup believes that current mandatory planning parameters used in the Regulatory Plan in the China planning system are limited in scope and may not be able to drive all the energy, resource and carbon emission reduction objectives at the city and site level.

National guidance like the Circular Economy Law and local guidelines on eco industrial park development abound. Arup says linking building plans to central government guidelines, specific provincial targets like resource saving, and benchmarking with best practice overseas are all crucial. Low carbon development zones are another emerging opportunity, not just for building companies and designers, but for companies looking to reduce carbon footprint in their supply chains. Bernice Lee of the Royal Institute for International Affairs (Chatham House), has been supporting work in China on the development of low-carbon development zones.

Taking the lessons from eco city construction to scale will require not only a shift in perspective, but knowledge transfer as well. "For every one good project, there are still thousands that aren't." Market mechanisms to promote green building incentives are still in early stages in China. "Pricing of energy is too low to influence buyers of green buildings," Chan told AccountAbility.

Embedding responsible competitiveness principles to China's fast-paced urbanization requires blending strong policy implementation and the scale and expertise of the business community to achieve harmonious development.

Case study II: Incentivising low-carbon infrastructure development

> *A smart grid is an inevitable choice for China to address issues in its power industry and develop a lower-carbon economy"*
> **Jiao Jian**, Analyst at SYWG Research and Consulting[65]

Infrastructure-related emissions account for three-quarters of today's greenhouse gas emissions, according to McKinsey's latest assessment of a pathway to a low-carbon economy.[66] These decisions are particularly important for the power sector and industry where the lifespan of high-carbon infrastructure is longest (38 and 24 years respectively). Investing in new carbon-efficient infrastructure will not only help cut national greenhouse gas emissions but it will lead to businesses and consumers lowering energy usage and spending less on fuel. Ultimately, according to the McKinsey analysis, these investments will have a net cost-saving over their lifetime, even without any additional CO2 incentive. China is expected to spend over US$2 trillion on infrastructure by 2013.[67] Such investment decisions can support low-carbon prosperity and promote the development of a harmonious society. One example of how China is embracing this transition is electricity distribution.

Figure 9. Electricity distribution losses, 2004-2007

Source: International Energy Agency, 2008

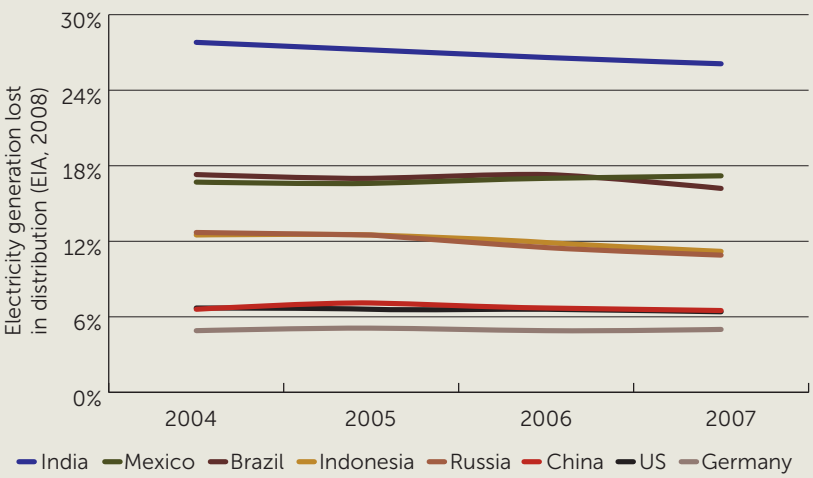


Figure 9 demonstrates the electricity distribution losses for seven of the world's most populous nations. Since 2004, China has been, on average, slightly more efficient at distributing electricity than the international average (the International Energy Agency expects most national grids to have a 7% loss). The latest data available shows that China is significantly more efficient than other major emerging economies like Brazil (16.9%) and Russia (11.9%), and now has the same level of electricity distribution losses as the United States of America (distribution losses of 6.5%).

One important reason for China's efficiency energy distribution has been the leadership of policy-makers and the action of China's largest national transmission and distribution body, State Grid Corporation of China, in developing ultra-high-voltage (UHV) transmission lines. State Grid opened the first UHV AC project, a highly energy-efficient power line stretching for 640 from Shanxi Province through Henan to Hubei, in January 2009, and has launched plans to triple the amount of UHV lines by 2012.[68] UHV enables countries to efficiently supply large quantities of electricity over large distances and meet the growing electricity demand in the populous cities.

Electricity distribution through UHV transmission is helping more people in China to access reliable and affordable energy that is distributed in carbon-efficient ways. "These types of innovations are supporting harmonious growth in China and helping us move into a low-carbon economy," said Li Weiyang, head of Corporate Social Responsibility at State Grid. "Making UHV commercially viable is helping State Grid understand our core social function, build expertise that enables us to access new markets and develops our brand. It demonstrates that firms in China can innovate new lines of business in ways that support national responsible competitiveness."[69]

Opportunities
On the basis of the analysis, the following areas merit further development:

- China's work to creating a responsible business climate through efforts to improve corporate governance and address corruption;

- Increased disclosure requirements, such as those recently promulgated by leaders of a SASAC CSR working group, which require companies to produce reports and disclose information particularly about corporate governance and sustainability issues, will further improve performance;

- Continued government attention to investment, incentives and procurement is sending the right market signals to enable the growth of nascent sectors such as renewable energy, and the improvement in efficiency of others.

2.2 Social Investment

> *"Chinese enterprises, led by SOEs, should create tailored strategies in accordance with the country's needs. In addition, they are required to conduct their CSR activities in line with global standards."*
> **Huang Shuhe**, Deputy Head of State-owned Assets Supervision and Administration Commission (SASAC)[70]

Social investment examines how businesses, civil society, and policy-makers are investing to support China's national development agenda and global responsibilities. Social investment means integrating *gongyi* (philanthropy, or the public good) into business strategy, operations, core competencies, and the bottom line.

The growth of philanthropy in China is dramatic. Spurred by the 2008 Beijing Olympics and the Szechuan earthquake in May of that year, 2008 became the "first year of philanthropic China."[71] In the first half of 2008, donations reached US$8.9 billion, the highest amount in Chinese history.[72]

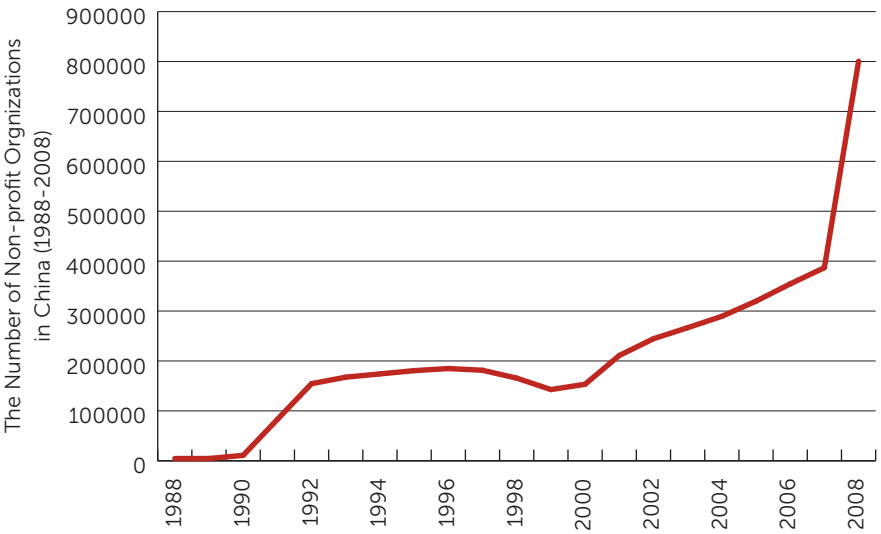
Social investment is closely linked to business strategy, in the assertion of issues that are key to future development; be that developing new consumers, training a new generation of technology users, or working with groups of companies, governments, and civil society organisations to agree on common rules for achieving common objectives. This kind of strategic social investment is already being practiced in China. Indeed after the 2008 earthquake, companies such as Juneyao Airlines used their logistical networks to fly supplies into the disaster-struck zone.

The growth of China's NGO sector

Supportive government policies and increased business involvement in philanthropy have resulted in a large increase in the number of NGOs in China; over 800,000 according to the Ministry of Civil Affairs as Figure 10 illustrates. The "Blue Book for Philanthropy" published in 2009 by the Social Policy Research Centre of the Chinese Academy of Social Sciences shows that NGOs received 3.5 times more funding in 2008 than in 2007. Chinese charities are also working to seek markets by themselves, seeking both cash and in-kind donations. Gaps still exist and the Blue Book points out that more can be done to close the gap between China and developed countries in the world of philanthropy.[73] NGOs are systematizing and leveraging support. The Red Cross Foundation set up a bidding system for grassroots NGOs to solicit effective plans and projects, supporting local NGO development with funding and capacity building.

Figure 10. The growth of non profit organisations in China, 1988-2008

Source: Ministry of Civil Affairs[74]



Stakeholder engagement

> *Fulfilling social responsibility ... requires central enterprises to be human-oriented, stick to scientific development, be responsible to stakeholders and environment, so as to achieve the harmony between enterprises' growth, society and environment."*
> China State-Owned Assets Supervision and Administration Commission

In China, business engagement with civil society is traditionally linked to philanthropy and sponsorship. Some businesses in China and internationally are working with civil society stakeholders to develop employee volunteering schemes and to promote core business objectives. Insurance companies in India, for example, are working with NGOs to develop new products for low income communities in areas at risk of tsunami and the impacts of climate change. Table 2 below describes different options for social investment that companies have.

In China, Lenovo has developed a "venture philanthropy" initiative, which leverages the company's hard and soft resources in the form of skills, financing and products, with the objective of helping NGOs support institutional development. A second objective is to encourage other Chinese companies to work with civil society. Lenovo has invested 3 million RMB in the second phase alone. In collaboration with the Non-Profit Incubator (NPI),

the programme has valuable reputational benefit and will provide financial returns in the long-term.[75] Intel's iWorld Programme offers an integrated platform for employees to volunteer.[76]

Timberland, the US boot maker, has been working in partnership with GreenNet, a Japanese NGO, enabling small teams of volunteers to plant trees in the Horquin Desert of Inner Mongolia since 2001. Small voluntary actions over time begin to add up: by mid-2010 the project aims to have planted one million trees. "Tree planting has proven to be a unifying proposition," says CEO Jeffrey Schwartz. "Unlike carbon calculations or emissions standards, it's a comprehensible, tangible proof point of our commitment to environmental responsibility. Consumers get it, and they like it, and they want to share it with us ... that's bottom-line benefit for our brand if I ever saw it."[77]

The concept and processes of stakeholder engagement developed internationally could benefit Chinese companies in their efforts to promote responsible competitiveness. AccountAbility's Stakeholder Engagement Standard, the AA1000SES – a voluntary standard based on the idea of continuous improvement – provides practical guidelines on implementing robust stakeholder engagement processes. Companies such as Nike and Gap, that have in the past been under attack from consumers with regards to labour rights in their supply chains, now benefit from rigorous stakeholder engagement processes and engagement in initiatives such as the multi-stakeholder Global Alliance for Workers and Communities and the MFA Forum. These "collaborative governance" initiatives began as risk mitigation strategies but have been found to add significant value to brand and reputation, increase employee satisfaction and strengthen relations with suppliers.

As Table 2 describes, NGOs are often involved in the development of social and environmental standards for business, typically in the form of multi-stakeholder partnerships. Many NGOs with specialist expertise in the social and environmental realm, such as WWF, FSC, the Climate Group or the Energy Foundation, are working strategically with business offering services to improve business' responsible competitiveness. China has an opportunity to increase the amount of civil society engagement in promoting responsible competitiveness through partnership, service provision and the development of standards.

Table 2. From individual company or government action to "Collaborative Governance"

Stages of social investment	Description
Individual company action	Companies donating to or partnering with NGOs seeking skills boosts, PR benefits or other benefits.
Networks of companies	Companies working together toward a common goal
Coordinated "soft standards"	Companies, together with other stakeholders, coming together to define "best practice" in a particular area, such as the "Responsible Care" initiative in the Chemical sector, led by BASF and Bayer, and, for the first time this year, by the Chinese petrochemical industry, including the Weng Fu Group wand 12 other companies publishing reports, plus China National Petroleum Company and nine others holding workshops to communicate progress on Responsible Care.[78]
Collaborative Governance and multi-stake-holder initiatives	Companies, governments and other organizations working together over the long-term on common development issues, such as the the Stop TB Partnership (www.stoptb.org) or The World Conservation Union and the International Council of Mining and Metals Dialogue (www.iucn.org).

Case study III: NGOs Partnering with Companies to Achieve Higher Environmental Standards

WWF is one example of the non-profit sector working with businesses to improve their environmental performance as well as their bottom line. In their "climate saver" program, the environmental organization has worked with companies like Coca-Cola to set up goals for energy saving. The WWF team assesses factories, and works with the company and 3rd party technical consultants to help the company set and reach emissions goals. "We want to be ambitious," says Ms. Jing Ding, WWF's China's director of business engagement, "so the standards we use are usually much higher than local or national standards."

WWF uses the US$20 million donated by Coca-Cola to assess companies on an annual basis to measure performance. If companies have not reached their goals, WWF works with them find out why and

seek solutions. Because this is a global program, Ms. Ding Jing has been able to compare Chinese performance with other countries. She has noticed that many Chinese facilities actually require less investment than European or North American counterparts. "The technology in China is often more advanced than many plants in Europe or North America because those plants are older." From the company perspective, the partnership with WWF and target-setting is invaluable.

Ms. Ding says companies welcome this kind of engagement because Coca-Cola has already integrated sustainability into its long-term strategy. These companies have often already made public commitments to achieve green targets, so being sustainable is part of their brand. As Muhtar Kent, President and CEO of Coca-Cola affirms, "Our sustainability as a company demands a relentless focus on efficiency in our use of natural resources. These performance targets are one way we are engaging our global business to improve our management of water and energy." Such engagement also brings cost savings, and benefits those without access to clean drinking water. The major challenge is changing the planning horizon from short to long term because many of these savings only come in the long term.

The government role in civil society development

> *"The mechanism, system and idea of China's charity sector has lagged far behind citizens' demand"*
> **Wang Zhenyao**, Director of the Social Welfare and Charity Promotion department under the Ministry of Civil Affairs

In China, like many other countries, the government is becoming a more important funder of non-government organizations, and plays a strong role in encouraging companies and citizens to donate. The media is becoming more important in encouraging public donations. The Chinese government has set general targets in its *Outlines for the Development of the Philanthropy Industry 2006-2010*, including spurring a widespread culture of philanthropy and encouraging corporations to participate in charitable activities.[79] In Shanghai, the Pudong New District government provides both physical support through an office building and funding, as well as administrative support to incubate local grassroots NGOs like the Non Profit Incubator (NPI) which advances social innovation and cultivates entrepreneurship.

Internationally, some governments have established systems for more strategic allocation of aid in the face of man-made or natural disaster. The Disasters Emergency Committee in the UK, for example, is an umbrella group of 13 international development NGOs, supported by a network of television and radio broadcasters and the UK's Department for International Development, which launches an appeal to raise money when the need arises. Resources are then pooled and divided according to the speciality and geographic location, to maximise the impact that donations have.[80]

Government is also expected to reduce corruption in the sector and ensure that donations end in the hands of trustworthy NGOs. The *Regulations on the Management of Foundations* was enacted in 2004 to protect the legal rights of the foundation, donors and beneficiaries. A new Charity Law, proposed by the Chinese Ministry of Civil Affairs, will help to ensure transparency in the sector. Recent proposals to broaden registration requirements of NGOs should enable the development of civil society in China and allow increased opportunities for business to engage with a wide base of stakeholders.

Socially responsible Investment (SRI)

Social investment does not only refer to business investment in civil society. It can also mean business to business investment, when the social or environmental responsibility of a client presents an attractive financial offering. The increasing practice of socially responsible Investment (SRI) and the emergence of sustainability indexes such as the FTSE4Good are signals of this trend.

Globally, despite the global economic downturn, investment into 'sustainable' funds has grown and the total global portfolio, according to the European Social Investment Fund, accounted for US$5 trillion in 2008. In the United States, nearly US$1 in US$7 are invested in funds that are screened to exclude some social or environmental criteria (e.g. avoiding investment into weaponry, tobacco or polluting industries). These stocks have held up relatively well in turbulent markets, with the consultancy AT Kearney concluding that sustainability-focused companies outperformed their industry peers by 15 per cent over six months.

HSBC has taken a leading role in analysing and supporting leading climate performers. Belgium's Dexia has embedded sustainability into their offerings, and now provide a menu of 20 socially responsible investment funds for clients to choose from. SAM Group, the Swiss-based asset manager, and Gatehouse Bank, a fully Shariah-compliant wholesale investment bank, launched a new collaborative Islamic finance water strategy to support

sustainability-oriented companies that offer technologies, products and services throughout the entire value chain of water processing and transportation. Even in strained economic times, sustainable investment is providing strong economic performances and the opportunity for companies to create new product and service offerings. Sustainable investment is presenting a growing opportunity for companies. According to Head of Climate Change Investment at HSBC, Nick Robins, "the market is moving in favour of sustainable investment".

China's Socially Responsible Investment market is in its early stages, but companies like AEGON in Shanghai and others in Shenzhen have created SRI funds. Meanwhile, the Shenzhen and Shanghai stock markets have also instituted rules for listed companies to implement social responsibility. AEGON-Industrial Social Responsibility Securities Investment Fund is the first socially responsible investment product in China. Created in April 2008, the fund is managed by AEGON-INDUSTRIAL Fund Management Co. Ltd. (AIFMC).[81] The fund has adopted a positive screening approach and developed a set of criteria to assess corporate and environmental sustainability. Meanwhile the country's largest pension fund with total assets of US$82 billion, the National Social Security Fund of China (NSSF), places "responsible investment" in one of its four central investment principles.[82]

Opportunities

Given the progress to date and the opportunity to build further knowledge exchange with European businesses, the following opportunities are noteworthy:

- Improving the way the media holds companies accountable and focuses on the competitiveness-enhancing aspects of the CSR agenda;

- Technology investment and rural ICT: coordinated effort amongst technology companies to reach new markets, foster next generation of technology users and engineers, get people online, coordinate philanthropy and so on;

- Building capacity to make it easier for international organizations, governments, and for businesses to work with Chinese NGOs as they too begin "going out";

- Deepening the relationships between local foreign NGOs and Chinese companies investing abroad;

- Strengthening the SRI market through the development of guidelines for, and capacity building of fund managers;
- Expanding the role of leading Chinese NGOs abroad to work with Chinese companies; and
- Increasing the professionalism, transparency and accountability of NGOs operating in China.

2.3 Attracting and retaining talent

> *[I]t is the improvement of the quality of teachers, as well as their education concepts in accordance with the times, that will be essential".*
> **Professor Xu Jialu**, Director of the College of Chinese Language and Culture at Beijing Normal University[83]

Attracting and retaining talent covers the myriad of issues that relate to building a workforce that is both committed and able to deliver responsible competitiveness. This ranges from company action towards protecting and promoting employee rights and welfare, as well as the extent of workplace training and career development opportunities. It also refers to the role of business, government and educational institutions in preparing a future workforce with the commitment and capability to work in a low carbon economy.

The Chinese labour force is already undergoing extensive changes. In the past, China specialised in labour intensive activities, but with rapid economic development it has been able to skip technological generations of many western countries and move quickly towards competing for higher value labour. In a 2005 study, 60% of the multinationals that were surveyed rated China as by far the most attractive foreign R&D location, twice as much as second place USA.[84] The number of foreign students in China has risen from 64,000 in 2007 to 92,500 in 2009.[85]

Quality of education
Significant government investment into improving the quality of education means that China now has more students in tertiary education than the US and this gap is likely to grow, and China is predicted to jump two places from 5th in 2007 to 3rd place by 2012 in Heidrick and Struggles' Asia Pacific Talent Index.[86] However in a 2005 survey of multinational companies, CEOs claimed that less than 10% of the 3.1 million graduates from that year would be suitable to work in their company.[87] China, like other developing countries, may benefit from more students to attending technical schools, but high costs or social stigma against non-university education often prevents this.

As a result of such investment and efforts to promote a more inclusive workforce, there are already more students in tertiary education in China than there are in the USA. Plans are underway to close the skills gap that is predicted, as China moves from being export-driven to a national demand-driven economy; one such plan being the government's aim to increase the

number and level of vocational training to enhance graduates' employability. In 2009, central government will spend 42 billion RMB to support employment schemes – 68% higher than 2008.[88] China also plans to employ 600 foreign experts, train 6000 young innovation talents and attract and fund 1500 outstanding overseas students to work in the Chinese Academy of Sciences.[89]

Universities and technical colleges have an important role to play not only in equipping future workforces with the skills required to work in a sustainable economy, but also as citizens/to build sustainable communities. Shanghai Jiao Tong University has taken a leadership role in defining what it takes for universities to really be world class. The university's Academic Ranking of World Universities (ARWU) originally aimed to understand the difference between global best practice and China's standing in relation to that. Now it is looked to throughout the world as the standard for measuring quality higher education institutions. In the 2008 index, China had 30 universities in the top 500.[90]

Higher education institutions also recognise the need to incorporate sustainability into courses. Tongji University has researched the need to make universities sustainable by incorporating social and environmental principles into all subjects. As a consumer of resources itself, the university manages its supply chain and is moving towards operating in an energy efficient way. Beijing University offers a Masters degree in Education for Sustainable Development.

Low carbon jobs

What does the development of a low carbon economy mean for China's future workforce? There are four broad areas of predicted change:[91]

1. *The creation of new jobs*. It is estimated that by 2050 the low carbon energy sector could employ more than 25 million people worldwide.[92] In the context of the economic crisis and short term projections deriving from national "green" stimulus packages, it is conservatively estimated that 600,000 new jobs will be directly created in China as a result of the US$218 billion China has allocated towards renewable energy and related construction, products and services.[93]

2. *Job substitution*, for example in the area of energy production (the move from fossils to increased production by renewable sources), or from landfill to recycling. China's recycling industry already employs approximately 10 million.[94]

3. *The elimination of employment*, as products are banned or markets disintegrate, resulting in discontinuation of certain products and services. Even as China's rail network continues to grow (24% between 1992–2002), railway employment was cut from 3.4 million to 1.8 million due to increased efficiencies, and this is declining further.

4. *The need to upskill workers*, as employment in, for example, the construction sector becomes increasingly responsive to energy concerns. It is anticipated that there will be a much greater demand for so-called STEM skills, i.e. science, technology, engineering and mathematics.

The International Labour Organisation (ILO) is working to promote green jobs around the world, and to this end has developed a China Climate Change Partnership Framework agreement (2008-2010) with MOHRSS, CEC and ACFTU. The initiative incorporate research, green jobs training for young graduates on cleaner production, and the improvement of employment practices through the Sustaining Competitive and Responsible Enterprises project.[95]

Investing in employees

Businesses in China already feel a responsibility towards employees. In the Fortune China/AccountAbility CSR Survey in 2009, 88% of the managers surveyed claimed that caring for the health of employees was a part of CSR, while 77% agreed responsibility to ensure professional growth and development of employees.[96] Chinese multinational companies also feel a responsibility towards employees in other countries where they invest. As the ZTE case study below shows, such efforts to attract and retain talent can also be beneficial to reputation and the bottom line.

Civil society also plays an important education role for employees. Organisations such as the Swedish Institute of Management, CSR Asia, BSR-China, the WWF Teacher Training Centres and the China Training Institute offer valuable services to up skill workers towards the demands of a more sustainable means of doing business.

Case study IV: ZTE and localisation

> *In one word, we lack talented staff, which is becoming a bottleneck for Chinese transnational corporations."*
> **Cheng Siwei**, Former Vice Chairman, National People's Congress[97]

One of the biggest challenges for Chinese multinational companies as they "go global" is a lack of knowledge and information about the context and potential risks of host countries. Multinationals confront issues such as laws and regulations on investment, inspection procedures and the roles of labour unions, which impact both financial as well as non financial performance. Attracting and retaining talented staff requires companies to focus on issues such as employee rights and benefits, equal employment opportunities, training, career development and gender equality, all of which can be difficult in new country contexts.

ZTE Corporation, one of the world's leading companies in communications manufacturing industry, is tackling these issues by localising employees in its foreign subsidiaries. Over 60% of ZTE's revenue in 2008 came from investments in telecom operators in 135 countries. LiuPeng, the vice president of ZTE, states "If local employees do not occupy above 60% [of our workforce], we cannot say that we achieve company localization. In this way, the company can not integrate itself into the local culture."[98]

In an effort to increase the numbers of local employees from just 10% of the international workforce in 2002 to nearer the 60% target, ZTE established training centres and provided training on communication technology and knowledge management to local employees in the Middle East, North African and South African regions. In this way, local people can access better technology and are consequently better skilled and more effective.[99] To date, over 500 people have attended the training in the North Africa training centre alone.

Moreover, ZTE believes that showing respect to different religious beliefs and cultures is an important means of attracting and retaining local employees, as well as improving relations with host governments and earning trust of suppliers. The company has engaged all these stakeholders in different training modules. By 2007, the percentage of local staff in ZTE had risen from 10% in 2002 to 65%.

Better workplaces

China has also made great strides towards raising minimum labour standards, through the issuance of the Labour Contract Law and increasing the rigidity of employment. The National Human Rights Action Plan will enhance state measures to protect the rights and interests of minorities, women, children, the elderly and the disabled.[100]

China made major investments in health and safety after the series of drastic coal mining accidents during the period October 2004 to February 2005 that Premier Wen Jiabao called a "bitter lesson."[101] Industrial, mining and commercial deaths were running at the rate of about 15,000 people a year in the mid-2000s. "In case of any conflict between production and safety," advised SAWS Minister Li Yizhong in April 2005, "safety shall prevail."

Other challenges still remain, including remaining gaps in the legal and regulatory framework, outdated safety equipment and systems, and low awareness among some workers. There are also enforcement issues. "On the one hand, officials are held accountable for mine accidents in their administration," says Professor Ding Xueliang of Hong Kong's University of Science and Technology. "On the other hand, they are unable to tackle mine owners with high connections."[102]

The lack of experience that Chinese businesses have of engaging with a broad cross-section of stakeholders poses a challenge for multinational Chinese companies in particular, as they respond to new cultural contexts. Companies, both domestically and as they "go out," are learning the value of stakeholder engagement.

Opportunities

Before looking next at business compliance and standards, it is worth emphasizing the following potential areas:

- Develop low carbon roadmaps to generate green jobs and identify where skills shortages could stand in the way of delivering low carbon technology;

- Build entrepreneurial skills, the key to continued progress in adapting and innovating. Business and government can support entrepreneurship through 'challenges' like Microsoft's annual global Imagine Cup and targeted programmes like the Hangzhou Municipal Commission with the Communist Youth League programme to train young people in rural areas on entrepreneurship;

- Increase linkages between higher education, research institutions and business to contain any danger of an emerging skills gap; and

- Increase the strength of existing centres of expertise and, if required, establish a central cooperation such as a Responsible Competitiveness CSR Centre, or learning network.

2.4 Business standards and compliance

> *Decreasing energy consumption and increasing efficiency in the plant using demonstrated tools and technologies can cut costs and boost competitiveness."*
> **Dr. Sui Tongbo**, Vice President China Building Materials Academy (CBMA)[103]

Standards and compliance for business refers to the application of voluntary standards specific to the region, sector, or type of organization, in addition to legal compliance with national and local laws and regulations. Voluntary standards can be motivated by a social or environmental concern, but the most successful and sustainable standards connect the upgrade of social or environmental performance with profitability. Forest Stewardship Council (FSC) certification in China has risen from zero to over 300 from 1998 to 2007.[104]

Government targets

The Chinese government has set many compulsory standards to promote responsible business, such as the Limits of Fuel Consumption for Passenger Cars for controlling vehicle consumption, which came into effect in 2005 and was tightened again in 2008.[105] In addition, government has set targets to increase the percentage of sectors being monitored by, for example, the National Surface Water Quality Standard to reduce water pollution.[106] Evidently, ensuring compliance with such standards is crucial to the improvements they can make.

Standards for sustainability

China has also set high targets to adopt voluntary sustainability standards. By 2020, the government's goal is for international standards to align with over 90% of total standards used in China, and for the proportion of Chinese representatives in the International Organization for Standardization Technical Committee and sub-technical committee to reach 10%. China aims to have 1,000 international standardization experts, and 200 Chinese standards will become international standards and China will be involved in the creation of 2,000 international standards.[107] As Table 3 illustrates, ISO certification is already soaring.

Table 3. Top 10 ISO certified countries

Source: ISO Survey, 2007[108]

	Country	ISO9000
1	China	210,773
2	Italy	115,359
3	Japan	73,176
4	Spain	65,112
5	India	46,091
6	Germany	45,195
7	USA	36,192
8	UK	35,517
9	France	22,981
10	Netherlands	18,922

	Country	ISO14001
1	China	30,489
2	Japan	27,955
3	Spain	13,852
4	Italy	12,057
5	UK	7,323
6	Korea	6,392
7	USA	5,462
8	Germany	4,877
9	Sweden	3,800
10	France	3,476

Chinese businesses are increasingly confident in adopting process standards such as GRI, ISO and OHS, and environmental standards. Eleven Chinese companies now disclose their carbon emissions to the global Carbon Disclosure project.[109] Table 4 illustrates the scale of the adoption of international standards by Chinese companies. Perhaps most striking is the adoption of FSC principles and criteria. However, the uptake of social standards such as Social Accountability International's SA8000 and BSCI is much lower. Chinese companies, especially those "going out," are beginning to see the value in broadening the scope of the standards that they apply as well as that of stakeholder engagement in developing and applying voluntary standards.[110] Adoption of these standards will mark the next phase of China's progress towards responsible competitiveness.

Chinese businesses are also displaying a lot of interest in the international AA1000 Assurance Standard (AA1000AS) and its core principles of inclusivity, materiality and responsiveness that is now available in Chinese language to add value and credibility to the more than 500+ companies now undertaking sustainability reports in China.

Table 4. Uptake of standards for sustainability in China

Source: China WTO Tribune analysis

Name	Numbers of companies certifying or implementing the standard
Business Social Compliance Initiative (BSCI)	By 2006, implementation of BSCI's Code of Conduct was audited in more than 400 factories in China[111]
China Social Compliance 9000 for Textile & Apparel Industry (CSC9000T)	By December 2008, 314 members of the Responsible Supply Chain Association adopted the standard, 53 of which have been accredited[112]
Forest Stewardship Council (FSC) Principles and Criteria	1,161 Chinese companies in total: 879 in mainland China, 248 in Hong Kong, and 34 in Taiwan[113]
International Council of Toy Industries Code of Business Practices	By October 2005, 175 Chinese companies were ICTI certified[114]
OHSAS18000	By July 2009, 22,667 Chinese enterprises were accredited[115]
SA 8000	By March 2009, 223 Chinese enterprises were SA8000 certified[116]
Sustainability Reporting Framework(G3) of Global Reporting Initiative (GRI)	By September 2009, 47 Chinese enterprises had adopted the G3 guidelines[117]
UN Global Compact	By September 2009, 212 members in China, including 185 enterprise members[118]
Worldwide Responsible Apparel Production	By September 2009, more than 300 factories in China were WRAP certified[119]

> *The development of social responsibility of China's textile and apparel industry is an internal requirement for sustainable development."*[120]
>
> **Mr. Du Yuzhou**, Chairman of China National Textile and Apparel Council

China is not only adopting and modifying international standards, but also creating its own. The CSC9000T, a CSR management, reporting, and

assurance system stewarded by the Chinese National Textile and Apparel Council (CNTAC), has been taken up in its pilot phase by over 100 Chinese companies. The standard was developed together with civil society. As reported by CNTAC, and as many managers told AccountAbility, the standard is helping companies achieve higher levels of worker satisfaction and productivity. In 2008, 53 companies implemented the CSC9000T and a further 100 had a completed the first stage evaluation.[121] To embed value into long-term relationships with international buyers, most Chinese textile companies still follow standards with higher international recognition, or those required by buyers. This could change as the CSC9000T and similar standards become more recognized abroad, or are even adopted by companies in other textile producing countries.[122]

Differences remain between the application and verification of Chinese standards and those developed internationally. International standards often apply various checks and balances and third party verification to further increase transparency and accountability of labelling initiatives.

Box I: Strategies for the development of standards

Work by AccountAbility and the State Council's Development Research Centre, undertaken as part of a project on *China's Sustainable Trade Strategy* with the Chinese Ministry of Commerce and the International Institute for Sustainable Development, purports that Chinese companies have three strategies for dealing with these international standards:[123]

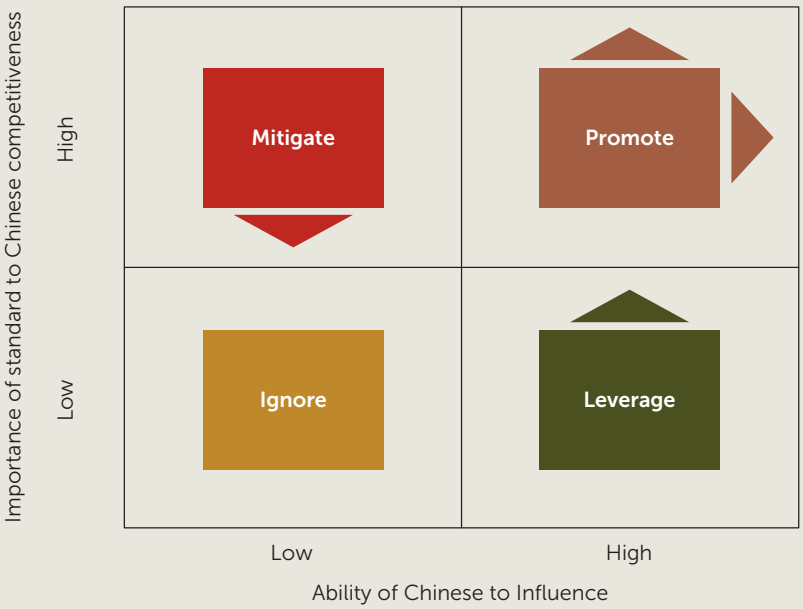
Normalization (Compliance): where it serves China's interest to comply with prevailing sustainability standards, indicating a strategy of engagement on terms already established in international markets.

Exceptionalism (Opting out): where China's optimal strategy is, in the short or longer term, to avoid compliance with prevailing international standards, relying instead on its own standards tailored to its own needs and preferences.

Transformational (Engaging and Influencing): where China's interests are best served by seeking to reshape international sustainability standards, whether by becoming active participants in existing initiatives, or by promoting alternatives as new international norms.

Figure 11. China's sustainability standards assessment matrix

Source: State Council of the P.R. of China's Development Research Centre & AccountAbility, 2009[124]



Which pathway makes more sense to pursue depends on two crucial variables, namely the *Actual or potential impact* of any particular standard on a Chinese enterprise's competitive position, and the capacity of a Chinese enterprise to *influence the standard*. Putting these two variables together with the three pathways provides the basis for a simple strategic framework offering four options:

1. *Ignore*: if a standard, and its proponents, are of little or no importance to Chinese competitiveness and China is poorly placed to influence the standard.

2. *Mitigate:* finding ways to reduce the impact of a standard that the Chinese cannot influence but could if effective reduce Chinese competitiveness.

3. *Leverage*: seeking to enhance the impact of a standard on global markets if its success would enhance Chinese competitiveness.

4. *Promote*: enhancing a standard over which China has influence and that could enhance China's competitiveness.

Consumer-facing labels

Consumer-facing labels have the dual benefit of increasing business' sustainability performance whilst raising consumer interest in considering broader quality issues when making purchase decisions. China has built upon the Energy Label issued in 2005 with a range of standards for consumers. It is expected that 18 billion kilowatt-hours of electricity will be saved by labels for air conditioners and refrigerators by 2010 and a further 87 billion kilowatt-hours by 2020.[125] The Energy Saving Appliance list is an award scheme launched in 2009 that reviews air conditioners, refrigerators, washing machines and water heaters made by 60 companies.[126] Meanwhile, the Top-1000 programme is an initiative to promote competition with regards to energy efficiency in China's biggest 1000 businesses and save 100 million tones of carbon.[127]

Sector collaboration to raise standards

If confidentiality issues are properly addressed, there are considerable benefits to businesses working together – even with competitors – to tackle problems that affect the whole sector. The cement sector is an example of how working together to manage both social and environmental impacts can provide financial and reputational benefits. There is also benefit to the sector of actively participating in government target setting. Cement is responsible for 5% of global greenhouse gas emissions, and there are increasing pressures to reduce the sector's emissions worldwide, despite rising demand for this product. Indeed the Chinese government has already released energy standards for the cement industry aimed at a 15% reduction in energy use by 2010.[128] At the global level, the World Business Council for Sustainable Development steers the Cement Sustainability Initiative, which is an effort to share learning across the member companies on the technologies and policies required to reduce emissions. Several Chinese companies will be joining the initiative this year. China currently produces almost half of the world's cement, and it is not beyond possibility that national efficiency targets will be set for the sector in the short to medium term.

> *"The Cement Sustainability Initiative is both very business focused, and action oriented, and is driven by participating companies. They recognise that collaboration allows them to tackle issues too large to address on their own."*
> **Howard Klee**, Director, Cement Sustainability Initiative[129]

Additionally, BaoSteel, China's largest steel maker, has been quietly researching standards for the measurement of embedded carbon in their steel production. This, according to their sustainable development

department, has been primarily done in response to market signals that the cost and measurement of carbon will soon be a material business issue.[130] Even though other companies may not have begun to measure carbon emissions in such a systematic way, they can benefit from BaoSteel's research and work together to influence the development of global embedded carbon measurement standards.

A national initiative of the WBCSD, the China Business Council for Sustainable Development, with member companies including BP, Sinopec and BASF, has developed *Guidelines for Petrochemical Project HSE Implementation and Application Example by the Management Party*. More initiatives of this kind will raise standards within Chinese industry and contribute to the competitiveness of China's low carbon economy.

Case study V: Industry collaboration to promote wind energy sector standards

Denmark is well known for a strong renewable energy sector. The government has pursued a 30 year-long strategy to promote the domestic wind energy sector. Policies over that period have included market guarantees, subsidies and tax breaks. Denmark has also encouraged closer links between research and industry to ensure that government standards meet the most up-to-date technological advancements.[131]

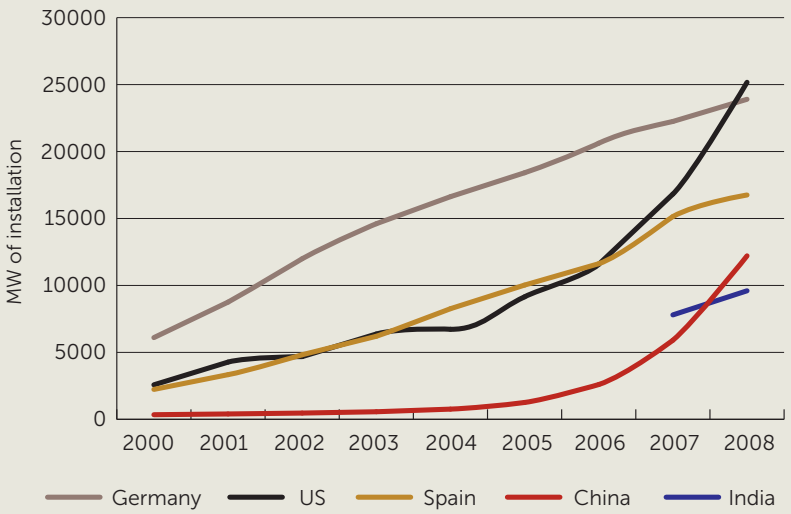
In China, it is industry that has taken the lead, aided by supportive government policies. The rapid increase in the installation of wind farms in China is testament to the commitment of industry to helping government create an investment environment which will promote low carbon growth. At the China Wind Power conference in October 2009, the Global Wind Energy Council (GWEC), the Chinese Wind Energy Industries Association (CREIA) and the Chinese Wind Energy Association (CWEA) identified areas of cooperation and introduced ambitious national targets. Requirements of a strong enabling environment were described as setting appropriate national targets; ensuring better access to the Clean Development Mechanism (CDM); improving transparency of rules and procedures; and enhancing transmission networks and operation, as well as grid access.

> *Wind energy is major mitigation technology to combat climate change. It is our common responsibility to promote wind technology and the healthy development of the industry"*
> **Li Junfeng**, Secretary General of Chinese Wind Energy Industries Association (CREIA)[132]

As a result of this collaboration and other business leadership in recent years, China's wind energy capacity doubled again in 2008 for the fourth year in a row, reaching 12.2GW, the fourth largest wind market in the world. Figure 12 below illustrates the huge advances that China has made in this sector in just four years.

Figure 12. Comparison of largest wind energy markets by MW of installation

Source: Global Wind Energy Council[133]



Technology transfer of know-how in grid planning and management and planned project management will further accelerate the growth of the industry. The 25% of wind farms that are not yet connected to the grid, including domestic wind farms, are approximately 10% less efficient. The future of the sector now depends upon continued leadership form both government and business.

Opportunities

Next, we look at supply chain management issues. But first we summarize the key opportunities available if China accelerates its proactive role in global sustainability and quality standards:

- Government standard-setting and increased enforcement: building on the momentum of enforcing quality standards, regulators can now move to gain recognition for environmental and social attributes of product quality;

- Sector standards and collaboration: the current process of developing sectoral approaches (eg in cement, pulp & paper, textiles, electronics, buildings) can be encouraged to cover other sectors (eg medicines, iron & steel, glass, autos);

- Awareness raising: there are numerous benchmarking and best practice learning opportunities through standards like the Carbon Disclosure Project; and

- Raising consumer awareness through labelling: Chinese consumers are ready to purchase good quality, energy-saving appliances as trust builds in the cost-saving potential of highly rated goods.

2.5 Responsible value chains

> *The future of the Chinese textile sector will be in supply chain competition."*
> Zhejiang textiles company in interview, July 2009

Responsible value chains means considering the economic, social and environmental impacts of business partners. This can come in the form of target-setting and auditing of suppliers. However it also refers to efforts to add value to products, which can be done at the sector level or in the promotion of clusters.

Responsible Supply or Value Chain Management has become increasingly relevant to both large MNCs and domestic SMEs for a number of reasons. As highlighted by the lessons learnt of companies such as Nike, reputational risks arising from a 'hear no evil, see no evil' approach to supply chain management are no longer tolerated by consumers. The brand damage and the potential consumer boycotts are a huge incentive to be seen in the public sphere as responsible supply chain leaders, not laggards. The rising costs of commodities are also a motivation to trim the fat off operations, as unchecked energy consumption and inefficient grids not only emit unnecessary emissions but cost unnecessary money. According to McKinsey, companies in the retail sector can trace up to 80% of emissions to their supply chains.[134] This challenge is not insurmountable, but only the most innovative and far sighted companies have the capacity to identify and benefit from these challenges and changing global trends.

Supplier relations

> *Sustainability trends affect competitiveness, costs, regulatory risk, and market position. The companies that reduce emissions along their supply chains will capture new markets with their green offerings while preserving the environment and improving worker health and safety."*
> **Jonathan Lash**, President of the World Resources Institute[135]

Business action to promote responsible supply chains range from initiatives such as Wal-Mart's supplier management programme, which audits and supports Chinese suppliers to meet Wal-Mart standards; to major Chinese companies like BYD auditing European suppliers. IKEA works with members of its supply chain to ensure the wood they utilise in their manufacturing is legally sourced. Private equity firm Tsing Capital has focused on clean

technology, by performing sustainability audits as well as engaging investors on sustainability issues.[136]

Training institutions and specialised courses are appearing to support supply chain management. At the international level, CSR Europe's Portal for Responsible Supply Chain Management is a valuable resource which will soon be developed into a China-specific tool by WTO Tribune's Chinese Centre for CSR.[137] A partnership between the ILO, MOHRSS, CEC and ACFTU, the Sustaining Competitive and Responsible Enterprises (SCORE) project, is increasing the competitiveness of Chinese SMEs by providing tools and advice for more responsible supply chain management.[138]

Case Study VI: Wal-Mart supply chain development

The efforts of Wal–Mart China to improve the impact of its supply chain stand out because of its sheer complexity and size. The retailer works with over 20,000 domestic suppliers and have capitalized on this challenge both in China and internationally to become a sustainability industry leader.[139] Wal–Mart has used its reputation as buyer of choice to its advantage in order to introduce and implement social and environmental perquisites within its supply chains. These prerequisites have facilitated a 'race to the top' culture which rewards high performing suppliers. To embed these exacting standards within their Chinese supply chain, Wal–Mart realized it was necessary to lead and support these efforts and in answer has created a Supplier Agreement. The agreement binds suppliers to adhere to Chinese national and provincial environmental laws, as well as to internal company regulations. For example, the energy efficiency program requires the leading 200 companies in the Chinese supply chain to reduce their energy use by 20% by 2012.

As part of their newly implemented Sustainability Index, Wal-Mart, in partnership with the World Resource Institute, is developing a tool that will eventually help and encourage their 100,000 strong, international supply chain to improve their collective efficiency.[140] Wal-Mart has also trained auditors and independent assurance providers to visit companies to make sure they are complying with the Supplier Agreement. The scheme has been mutually beneficial and by 2012 it will be mandatory for suppliers to source 95% of goods from the highest performing factories.[141]

Closed-loop value chains

"Closed-loop value chains", or "circular economy," are concepts to describe supply chains in which end or waste products are fed back as inputs into the same or a different supply chain, thus minimising waste, reducing costs and possibly increasing revenue. China Steel Corporation (CSC), the world's 25th largest steel producer, has developed a "Zero-Waste Programme" aiming to find a use for high zinc sludge. Identifying business consumers for this waste material - zinc smelting companies - has enabled CSC to increase its sludge-recycling rate in just 10 years from 76% in 1999 to 100% in 2009. Any remaining leftover sludge can be mixed with power plant coal ash to be sold as an inexpensive raw material to cement companies.[142]

Cluster development

Cluster development refers to geographically concentrated sectors, either in cities or in regions. Firms in clusters can be both collaborative as well as competitive. Concentrated efforts to promote cluster development can spring forward innovation and increase a city or region's competitive advantage. Research conducted by AccountAbility in 2006 concluded that cluster development is reliant on local champions, market analysis and capacity building.[143]

There are many examples of cluster development in China. UNIDO, in collaboration with the ILO, CNTAC and the Responsible Supply Chain Association, has facilitated sustainable value growth of China's textiles sector.[144] In Zhejiang province, where the export orientation of the medicines sector is hampered by concerns over quality and safety, medicines companies together with the Medicines Association have worked with AccountAbility to progress responsible competitiveness through market analysis, targeting and measurement, and the possible creation of a sector standard.[145] The case of Baoding illustrates how the combination of public policy incentives and business investment can turn around local industry and promote green growth.

Case study VII: Cluster development in Baoding

> *"Polluting first and cleaning up later is very expensive, so we chose renewable energy to replace traditional industry."*
> Mayor of Baoding, Yu Qun[146]

Regions and companies that successfully transform their offerings are managing to develop profitable products and services, and access different parts of the supply chain. One region that has successfully

reinvented itself is Baoding, 140 kilometres southwest of Beijing. In recent years, Baoding has transformed its local economy to build international competitiveness and create jobs. The region has historically been a key manufacturing base for camera equipment, but the digitalisation of photography undermined that industry and threatened the region's development. Far-sighted policy-makers and local businesses saw an opportunity to reinvent their competitive edge by developing solar photovoltaic and wind turbine clusters.

"There was an explosive change in 2006", Hui Deng, a General Manager at CECIC Wind Power (Shangbei) Yunwei Co. told the *New York Times* in October 2009.[147] "Since the government really thinks this is the right thing to do, they invested lots of money." And these investments have enabled local businesses to flourish: HSBC estimate that 150 new alternative energy companies have emerged in Baoding since 2002.[148]

Baoding's success has helped China to emerge as the global leader in manufacturing solar-energy and is helping China grow their wind energy capacity, but these were not the principal drivers behind the regional strategy. Investing in 'green' energy was principally about creating and preserving jobs in the region. So far, these efforts have been successful. 20,000 people now work in this sector and an estimated 12% of Baoding's gross domestic product came from the production of solar photovoltaics and wind turbines in 2007.[149]

Opportunities

China is already closely involved in some of the best managed global supply chains. Building on this advantage, there are opportunities to:

- Build stronger local and regional feeders to global supply chains: companies can expand supplier development programmes, for example in complex goods where the trend is towards sub-contracting;

- Engage more closely with innovators in smart logistics (eg enhanced container packing, collaborative warehousing, city distributing hubs, integrated delivery and recycling); and

- Learn from European supply chain expertise, for example with companies like Ikea and Tesco.

2.6 Product Service and Innovation

> *[We should] push for technical innovation, extensively promote and use new technologies, products and services, speed up, amplify and encourage energy saving, environmental policies, and innovation mechanisms, progressively link green to industries, growth, and consumerism, and expand new development spaces and bring about economized development, clean development, and highly efficient development."*
> **Li Keqiang**, Chinese State Council Vice Premier, 17 June 2009[150]

Product and service innovation is essential to green development, and requires concentrated efforts from business, policy makers and civil society, particularly research institutes. Achieving a low carbon economy is especially reliant on advances in technology and developing new markets, so innovation is particularly important to developing low carbon technology and growth.

Research and Patents

China is already making great progress. It is the third biggest spender in research and development (R&D) after US and Japan, and the country has invested heavily in environmental technology. Clean tech venture capital investments increased by 147% between 2005 and 2006, so by 2006 these investments represented 19% of all venture capital in China.[151] The number of patents issued is increasingly rapidly. According to James Dyson of Dyson Inc., "Patent applications are a barometer of how much money companies are spending on R&D and how they are positioning themselves for the future. For the first six months [of 2009], the number of U.S. applications was down 14%. But China's applications are up 19%."[152]

China ranks 85th of 162 countries in the 2004 ArCO Technology Index. The index measures technological capabilities, meaning the creation of technology, technological infrastructure, and the development of human skills. The index reveals China's growth of technological infrastructure to be a staggering 71%: another result of the government's high investments. Overall, this is the second highest growth rate of any country in Asia over the last 10 years.

Chinese companies are also rising to the challenge and in 2008, invested US$ 65.8 billion, or approximately 1.52% of their GNP, on independent R&D.[153] According to the WEF 2009–2010 *Global Competitiveness Report*, Chinese private sector R&D investment comes 23rd out of the 133[154] ranked economies.

Entrepreneurship and market development

Inventions do not automatically lead to innovation. Unlike inventions, innovation incorporates market development and product commercialization. It is in this area that business has a strong role to play. Similarly, innovation requires the cultivation of public awareness of energy saving and an eco-friendly society.

Companies are taking the lead in developing centres for innovation. AstroZeneca, for example, recently opened an Innovation Centre in Zhangjang Hi-Tech Park. Working with the Chinese Academy of Social Sciences, BP has established a Clean Energy Commercialisation Centre. The government actively promotes business linkages with research institutions through the National Intellectual Property Strategies of 2009.[155] of the BRIC countries, China ranked first in the INSEAD/World Economic Forum's *Global Information Technology Report 2008-2009*.[156] The report measures the impact of ICT on development and competitiveness.

Product innovation and adaptation

> *Fuel-efficient and new energy vehicles should account for 10 percent of the total industry in 2012."*
> **Wang Gang**, Minister of Information and Technology, Beijing, October 2009[157]

Internationally, many companies are innovating to meet the demands of low-income consumers. Product innovation that aims to tackle the threat of climate change using market-based offerings, has huge competitiveness potential and will reduce the vulnerability of the most marginalised in society.

Some companies are also taking advantage of the burgeoning carbon trading market to promote investment and further innovation. The Bank of China, for example, launched a carbon service and transaction platform in 2008 creating a valuable service for Chinese companies wanting to trade more easily in the international carbon exchange market.[158]

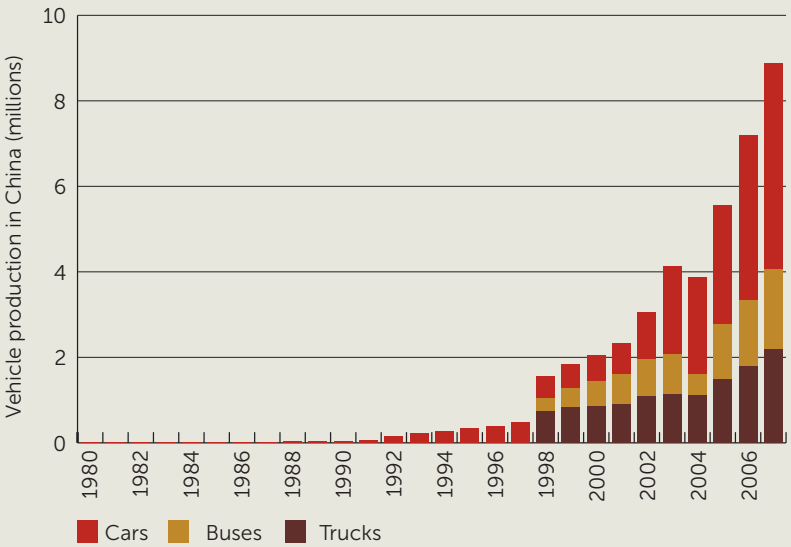
Meanwhile, the Chinese government is making significant investments in innovation. Some US$ 930 million has been allocated towards climate change technology innovations since 2001, and the Chinese Ministry of Science and Technology recently launched a Scientific and Technological Actions on Climate Change initiative to enhance the role of science and technology in responding to climate threats.[159]

Case study VIII: Fostering innovation in the electric auto sector

Since its accession to the WTO in 2001, China has become the world's fastest growing car market, with domestic passenger car sales rising by 25% in 2006 and car sales in China predicted to surpass those in the USA by 2020.[160] Despite this organic economic growth, the technologically fast paced and highly competitive international nature of the auto industry combined with the low carbon revolution means that growth needs to be directed in a sustainable way.

Figure 13. Chinese vehicle production, 1980-2007

Source: National Bureau of Statistics



The development of China's electric auto sector is illustrative of the need for concentrated efforts from both government and business. The government is working to integrate policies and incentives aimed at capitalising on the growing low carbon economy. Because of China's expanding auto sector many of these policies have focused on the development and consumer uptake of electric cars, including the raising of taxes for larger cars and reducing taxes for smaller vehicles.[161] The government has also encouraged the establishment of domestic low carbon industries, by placing demands on the origins of components and the imposition of import duties. In addition, efforts have been made to minimise the carbon footprint of traditional commercial vehicles and in 2004, China issued the third highest fuel

efficiency standards (FES) for passenger vehicles in the world.[162] The Chinese government has also begun offering vehicle fleet buyers subsidies of up to 60,000RMB (US$8,800) and over 10 billion RMB (US$1.5 billion) in grants for automobile industry innovation.[163]

A key determining factor in the rollout of new car technology and the competitiveness of specific car companies will be government policy on infrastructure. A high degree of policy coordination will be necessary to ensure electric cars can be easily charged. Another matter is to ensure a large supply of electricity from renewable sources to fuel the cars. With China's growing fields of wind turbines, many already connected by State Grid's ultra high voltage electricity lines (see Case study II on page 41), China has a chance to leapfrog electric vehicle production where no other economy has done so before.

Electrical car technology is also flourishing in China, and is one area of technology where China has potential to compete head to head with auto companies from Japan, the EU, India, and North America.[164] China's Tengzhong recently bid for General Motor's Hummer brand and wants to sell a more efficient version of the civilian version of this large military vehicle.[165] Even small-town entrepreneurs can get involved in creating modified electric cars using readily available spare parts.[166] BYD, a company that began life developing and manufacturing lithium mobile phone batteries and then producing electric cars, merged these two areas of expertise and in December 2008 launched the world's first dual-mode, plug in, Hybrid cars. The company's pioneering approach to product development is attributed to the foresight of the founder and chairman, Mr Wang Chuanfu, an engineer turned entrepreneur. Once charged, the F6DM battery lasts for 400km and will fully recharge in 60 minutes.[167] In addition, the F6DM has been designed to replicate and compete with American family cars. Both hybrid models are due to go on sale in Europe and the US in early 2011. The world has taken note and as David Sandalow (Assistant US Energy Secretary) states, "The Chinese are well positioned to be global leaders in the electric car industry."[168]

However, as BYD Vice President Mr. Yang Long-Zhong says, "the price is currently the key bottleneck for the EV industry development."[169] But also, he believed that consumer awareness and the convenience of electric vehicle will drive the sector's development.

While today's battery technology is still expensive for large-scale power storage, batteries might hold the key to making clean energy reliable energy. In US market, BYD and MidAmerican already plan to work on putting batteries to work to store the electricity generated by renewable sources such as wind farms. MidAmerican chairman David Sokol said the utility might invest in BYD's other U.S. ventures, including battery technology for power utilities.[170]

Opportunities

This penultimate step has identified a number of worthwhile opportunities to build responsible competitiveness:

- Promote Chinese low-carbon goods and services: challenging the assumption that Chinese exports are high-carbon, by building the expertise needed to undertake and manage carbon 'footprinting';

- Develop local area initiatives: Low-carbon zones, Environmentally friendly supply chains, City Responsible Competitiveness and Ecological Industrial Parks all have great potential in China, due to the economies of scale where hundreds of businesses with synergistic resource flows can be located together; and

- Low-carbon outsourcing: China has the opportunity to challenge India as the number one "sustainable outsourcing" destination but, as the China Outsourcing Research Institute points out, this potential requires investments in strengthening education, protecting IP, and attracting talent as well as energy-efficiency.[171]

2.7 Responsible Communications

> *In September 2006, our company decided to develop a corporate responsibility report, with the immediate aim of raising China Mobile's ability to take social responsibility via the reporting process. After the publication, we planned to introduce the reporting system into our government procedures."*
> **Ge Qi**, China Mobile[172]

The way businesses communicate with stakeholders is essential to responsible competitiveness. Responsible communications means effective, honest, and transparent communication, internally and externally, with a range of stakeholders from employees and government, to NGOs, consumers and the media.

Transparency and Reporting

In response to calls in the late 1990s to increase consumer confidence in business' ability to promote sustainable development, businesses worldwide started disclosing information about sustainability or CSR performance in the form of annual reports. The Global Reporting Initiative (GRI) is a set of guidelines which companies can follow to produce material sustainability reports. For many businesses, the act of reporting is an education and process by which responsible competitiveness can be improved. 13 Chinese companies registered their report with GRI for the 2008/09 financial year.[173]

Table 5. Chinese companies issuing CSR or sustainability reports

Source: China WTO Tribune research, 2009

Year	Number of reports
2001	1
2002	2
2003	3
2004	6
2005	13
2006	32
2007	98
2008	169
2009 (to end Oct)	582

Table 5 illustrates the rapid uptake of sustainability reporting in China. In May 2009, the listed companies in Shanghai Stock Exchange and Shenzhen Stock Exchange had already issued over 330 reports, indicating that the trend will continue into the next decade.[174] Industries with heavy social and environmental impacts are more likely to report on the sustainability performance, evidenced by the top 3 sectors producing reports are electronic, energy and metal.

The Chinese government has encouraged the growth of sustainability reporting with the issuance of SASAC's 2008 #1 document on CSR implementation of SOEs. China WTO Tribune has produced guidelines on how to write a CSR report. The government itself is disclosing sustainable development targets. The Sustainable Development Strategy Report is published annually, and relates to all new strategies and targets regarding national sustainable development.[175]

Case Study IX: Responsible branding by Ikea in China

The cult status that the IKEA brand has achieved since its conception in 1943 can be historically attributed to their minimalistic, high quality, Scandinavian designs sold at low cost prices. However, recently IKEA has developed an internationally respected reputation for their consistently responsible approach to business. As an international home furnishings company, the sustainability of forests is a key challenge to its long-term organizational growth. China is one of IKEA's fastest growing international markets and the company also sources 10% of wood used in product manufacturing from the country, in addition to the 130 million m3 of timber consumed annually by the domestic market.[176] These figures present a double burden of responsibility for China as both a buyer and supplier.

IKEA is working to expand its brand responsibly by preserving resources necessary for a sustainable business. By working with The Rainforest Alliance and supporting the Forest Stewardship Council (FSC), it is striving to reach a stage in operations where all wood used in IKEA production is sourced from forests certified by the FSC standard. Anders Dahlvig, IKEA CEO, affirms that, "sustainability is no longer an activity on its own, but it is totally integrated in everything we do."[177] Consumers actively prefer this approach and recorded sales for the 2008 financial year were up 7% from 2007.[178]

China's consumers

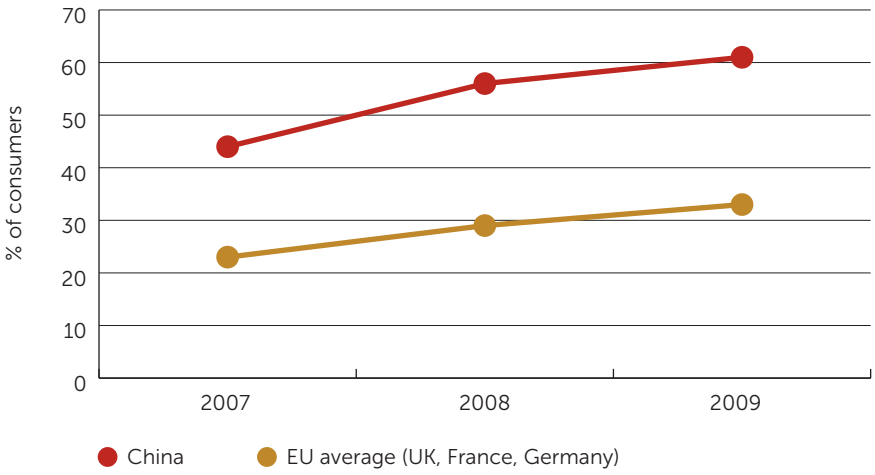
Consumer interest in sustainability issues, and the ability to make purchasing decisions based on broad concepts of value and quality, is an important means of promoting responsible business practice.

How interested are consumers in the social and environmental responsibilities of business? Awareness of the impacts associated with poor business practice is quite high. A recent Gallup poll, for example, revealed that half of urban dwellers interviewed saw air pollution in their city as very or somewhat serious.[179] But evidence suggests that Chinese consumers are not yet ready to turn knowledge into spending decisions: the Gallup poll suggests that Chinese consumers, relative to international consumers, have somewhat lower engagement with the private sector.

However, many Chinese consumers feel that they make personal efforts to minimise climate change through their daily living. As Figure 14 illustrates, the percentage of consumers committed to taking personal action is on average 25% higher than consumers in the EU according to a recent survey by HSBC. In addition, consumer interest in their rights is increasing. The Chinese Consumers Association (CCA) is a national organisation aiming to monitor goods and services, to protect consumer rights and interests, provide guidance on consumer activities and development and to promote a healthy environment for a socialist market economy.[180] The government's proposed changes to consumer rights legislation will further support the ability of China's consumers to influence business and promote responsible competitiveness.

Figure 14. Consumer commitment to tackling climate change in selected countries

Source: HSBC Climate Confidence Monitor, 2009[181]



Of course, increasing consumption post recession is difficult. Despite Chinese consumer confidence being amongst the highest internationally – marking only a 7% drop in the 6 months prior to March 2009 according to AC Nielsen's Consumer Confidence Index – China has the lowest consumption ratio to GDP of any major economy bar Saudi Arabia.[182]

Opportunities

As the final area of the pathway to responsible competitiveness, communications are often overlooked. Yet this sub-section has emphasized that communication needs to be taken seriously. Among the promising interventions to build on:

- Stakeholder communication: stronger support from government and civil society to develop reports and implement guidelines;
- Pro-active reporting: using corporate reporting as a means of learning and driving up performance – embedding targets and a high performance culture
- Building trust: increasing consumer spending power means a far greater potential for ethical purchasing and as more firms compete in the domestic market, green credentials are becoming a differentiator; and
- Organizing consumer voice: demanding consumers are a key to

competitiveness but consumer associations must be vociferous in promoting consumer rights.

Conclusions and recommendations

3
Conclusions and recommendations

> *China hopes to improve cooperation with other countries in these areas through policy exchanges, technology development and investment"*
> **Ma Kai**, State Councillor, 20 October 2000[183]

China has made significant advances towards building responsible competitiveness and a harmonious society. Progress in the areas of governance, energy efficiency, human resources, supply chain management, and the uptake and stewardship of voluntary standards and reporting are just some of the reasons why China has been moving since the 2007 assessment from a "complier" towards an "asserter" in terms of its Responsible Competitiveness strategy.

China increasingly recognises the great potential that a low carbon economy holds, in terms of income growth, safer and better employment opportunities, energy efficiency savings, a cleaner environment, and the China "brand" internationally. The report adopts a systematic and data-rich approach towards reviewing progress - and remaining challenges - in all of these areas.

The key conclusion is that business, government and civil society ***must work collaboratively and creatively in achieving the goal of green growth***. Government leadership at the national level has been essential in setting objectives and incentivising the development of the rapidly growing renewable energy sector. At the local level, government has invested to develop responsible clusters and low carbon zones, for example in Baoding and Zhejiang. Business action in connecting responsibility to core business strategy has enabled companies of all sizes, from giant State Grid to small and medium manufacturers, to innovate, increase access to energy and create new markets.

The report identifies clear examples of the bottom-line benefits of collaboration. In wind energy, the collective identification of targets and sharing of technology has led to a dynamic new sector with huge export as well as domestic potential. Academic institutions like Shanghai Jiao Tong University have developed a knowledge base around what it would mean to create a sustainable society. NGOs such as WWF, business associations like the Chinese National Textile and Apparel Council (CNTAC), and training organisations such as the Swedish Institute have provided specialist services to businesses to build capacity, create sector performance standards, and ultimately improve brand.

The report identifies seven core areas of responsible competitiveness. This simplified process illustrates how the vast and potentially complex notion of green and equitable growth and development can be broken down into achievable action points, for business, government and civil society. Some of the specific recommendations emerging from the report's assessment include the need to: increase corporate and city-level reporting and assurance; develop ICT in rural areas; build capacity of NGOs and the ability of NGOs to partner with business; further promote voluntary standards; close gaps in legislation and implementation in areas such as worker safety; and develop consumer awareness and green markets through procurement, campaigns and labelling.

The recommendations could be restrained by three key challenges:

- ***Achieving scale*** is difficult in China, despite assumptions about the decisiveness of the centralized policy-making process, because of the sheer numbers of businesses required to achieve a critical mass of national level responsible competitiveness, the incredibly rapid growth in key sectors, and the geographic size and diversity of China;

- ***Enforcement and policy coherence***: government leadership has played an important role in signalling policy direction to the market and incentivising investment in low-carbon industries. However the next stage of enforcement will be challenging and additional strategies – including benchmarking, target-setting and stronger incentives - may be needed to embed comprehensive reforms;

- ***Capacity building*** is required for business managers to align their business models with sustainability principles and apply, and develop, voluntary standards, especially in the area of labour and low-carbon standards. China's fast-developing markets provide major opportunities for learning and adapting best practice, but knowledge gaps need to be addressed.

Overcoming these challenges will not be easy. Indeed, the report concludes that detailed planning is needed to specify the exact support needs at each of the seven core areas of the pathway. But the following broad recommendations will certainly support the next stage towards a responsibly competitive and low carbon business climate.

- Achieving responsible competitiveness at scale is difficult for most countries. In China, national policies are supportive, business action

impressive, and civil society engaged, but the efforts to date are still not sufficiently wide-ranging. ***Scaling-up requires another round of comprehensive strategies, targets and measurement***.

- The low carbon economy is dependent on new technologies so increased efforts should be made to ***support business innovation***. Financial support is key, as well as "soft" support such as the creation of additional linkages to research institutions and civil society, and through greater use of creative approaches such as challenges and awards.

- A commonality of leading low-carbon countries is the existence of multiple, reinforcing drivers of responsible competitiveness. ***Creating additional drivers of responsible competitiveness*** in China will help give additional impetus to create the broad platform and consensus needed to achieve scale. For example, supporting the emergence of a local Socially Responsible Investment (SRI) market and encouraging consumer demand for responsible business (eg organic goods), will create additional market pressures for business action to improve performance.

- There is much to be learnt from international experience. ***Continued cooperation between China and the European Union*** will encourage technology transfer in both directions and allow China to leapfrog and allow European innovators to understand the fast-changing Chinese market. Similarly, ***cooperation between international and Chinese business*** is crucial to closing financing, technology and knowledge gaps.

- ***Strengthening the central knowledge base for responsible competitiveness and green business in China*** will ensure that best practice is made available as widely as possible. More cooperation internationally and domestically can contribute to the consolidated learning and training needs of the Chinese business community.

- ***Focused efforts at the sector and cluster level have significant potential to spur national level growth***. The Baoding case study in this report illustrates how one region's efforts can support the development of an entire national sector.

- A strong feature throughout the report has been the role of ***collaboration in creating consensus and developing knowledge***. Concentrated efforts to create learning networks amongst SMEs will build capacity and support scale.

Ambitious and timely business action is at the core of green innovation and growth. Business has the scale, expertise and speed to reshape economies for sustainable development globally. China has the potential to take a global leadership position in the low-carbon economy if innovative, collaborative and inclusive strategies are developed across the seven core areas of responsible competitiveness.

About the organisations

AccountAbility

AccountAbility (www.accountability21.net) works to promote accountability innovations for sustainable development. AccountAbility, founded in 1995, is a global, not-for-profit self-managed partnership with bases in Beijing, Geneva, London, São Paulo and Washington D.C., and country representatives in Brazil, Canada, China, Jordan, Spain, Sweden and the US. AccountAbility is a global network of leading business, public and civil institutions working to build and demonstrate the possibilities for tomorrow's global markets and governance through thought leadership and advisory services.

WTO 经济导刊

The China WTO Tribune (monthly), is supervised by the Ministry of Commerce of the People's Republic of China. It is a comprehensive financial journal, attaching importance to major economic events and CSR issues, especially those that integrate the Chinese economy and enterprises into the global economy after China's accession into the WTO. It is the most authoritative media source on WTO and CSR related issues in China. From 2003, China WTO Tribune has been greatly interested in Corporate Social Responsibility (CSR), and has organized reports, research, training, discussions and international communications on CSR. It has been a Chinese media pioneer of CSR research, achievement and good practices. It advocates the concept of 'Responsible Competitiveness' and has published eight professional CSR books. The Tribune maintains close relationship with CSR related international organizations and set up a network for CSR reports and promotion.

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Any mistakes, omissions or errors are the sole responsibility of the authors.

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RESPONSIBLE COMPETITIVENESS IN CHINA 2009

Seizing the low carbon opportunity for green development

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Responsible Competitiveness in China 2009

Responsible Competitiveness is the leadership, policies and practices that build sustainable development. Countries, cities, sectors and businesses are recognizing that responsible approaches to doing business are routes to new sources of value creation, improving reputation, managing risks, enhancing productivity and unlocking both product and process innovation.

Responsible Competitiveness in China: Seizing the low carbon opportunity for green development illustrates key trends, emerging challenges and best practices to help build national low-carbon prosperity. This report is the first comprehensive analysis of its kind to highlight how Chinese markets are growing to help scale corporate social responsibility linked to low carbon competitiveness, and is essential reading for investors, politicians, business leaders, and wider stakeholders who want to understand how Chinese markets and the businesses that operate there are preparing for tomorrow's green economy.

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Responsible Competitiveness
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EMBASSY OF SWEDEN