

# I. Introduction

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## 1. Background

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

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

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

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

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

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

## 2. Objectives

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

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

## 3. Definitions of Terms

### 3.1 Chinese companies

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

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### 3.2 Sustainable development and corporate social responsibility

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

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

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

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

### 3.3 “Going global”

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

## 4. Research Methodology

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

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



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

#### 4.1 Chinese ODI data

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

#### 4.2 Questionnaire survey

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

#### 4.3 Case studies

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

The case selection was based on the following criteria:

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

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

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



## 5. Report Writing Team

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

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

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

## 6. Limitations

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

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



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

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

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

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