

## IX. Achievements and Challenges

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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



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

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





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

