A tale of two states : explaining corporate social responsibility weaknesses of Chinese investments in Southeast Asia

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**A Tale of Two States:
Explaining Corporate Social Responsibility Weaknesses of
Chinese Investments in Southeast Asia**

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Abstract

China's efforts in cultivating close economic ties with Southeast Asia, which often result in asymmetric interdependent relations, have been a key element in its regional strategy. However, in recent years, Chinese investments in the region have encountered local resistance and criticisms for their disappointing performance of corporate social responsibilities (CSR).

This work seeks to address the question of why Chinese businesses' CSR performance in foreign countries has been weak and problematic, despite the fact that the Chinese authorities have issued relevant laws and regulations that encourage and require Chinese companies to do well in fulfilling their CSR duties. This study proposes two hypotheses to answer the research question. First, the thesis hypothesizes that China's fragmented institutional structure and incomplete political reforms hinder effective supervision and enforcement of the CSR activities of Chinese businesses overseas. Second, the paper posits that the development level of CSR regime in the target country also contributes to the Chinese companies' CSR standard. These two major factors work together in shaping the CSR performance of Chinese investments in Southeast Asian countries.

This study examines Chinese investments' CSR in three regional countries, including Indonesia, Vietnam, and Myanmar. The findings of the three cases suggest that the lacklustre CSR performance of Chinese businesses can be broadly attributed to two major reasons – Chinese domestic institutional shortcomings and the under-developed CSR regimes in the host countries.

This research is significant in that it explores a very important yet under-studied area in China's international political economy. The proposed two-pronged approach may serve as a useful foundation for the field of CSR studies in general and future research on CSR issues of Chinese investments in particular. The study is also practically significant and policy-relevant given the fact that Chinese capital and industrial sector are increasingly moving out of China for investment opportunities throughout the world. Both China and the international society can draw many good lessons from the CSR experiences of Chinese investments in Southeast Asia.

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Abbreviations

ACFIC	All-China Federation of Industry and Commerce
AIIB	Asian Infrastructure Investment Bank
ASEAN	Associations of Southeast Asian Nations
BCIM-EC	Bangladesh–China–India–Myanmar Forum for Regional Cooperation-Economic Corridor
BGER	Beibu Gulf Economic Rim
BWI	Business Watch Indonesia
CAFTA	China-ASEAN Free Trade Agreement
CASS	Chinese Academy of Social Science
CBRC	China Banking Regulatory Commission
CCIA	China Construction Industry Association
CDB	China Development Bank
CHALCO	Aluminum Corporation of China Ltd.
CIEM	Central Institute for Economic Management
CMA	China Mining Association
CMEC	China Machinery and Electric Equipment Export and Import Company
CNM	China Non-ferrous Metals Mining Corporation
CNMC	China Nonferrous Metals Company
CNMIN	China Non-ferrous Metals International Mining Corporation, Ltd.
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CPI	China Power Investment (the current State Power Investment Corporation)
CPIYN	China Power Investment Yunnan
CREC	China Railway Engineering Corporation
CSCEC	China State Construction Engineering Corporation
CSR	Corporate social responsibility
EEZ	Exclusive Economic Zones
EHP	Early Harvest Programme
EITI	Extractive Industries Transparency Initiative
EPH	Early Harvest Programme
EPS	Equator Principles
ESG	Environmental, Social and Governance
EXIM	Export-Import Bank of China
FCPA	Foreign Corrupt Practices Act (USA)
FOCAC	Forum of China-Africa Cooperation
GMS	Greater Mekong Subregion
GRI	Global Reporting Initiative
IBL	Indonesia Business Links
ICMM	International Council on Mining and Metals
ICO	International Communication Office of the Party (China)
IFC	International Finance Corporation, World Bank Group
ILO	International Labor Organization
ISO	International Organization for Standardization
JICA	Japan International Cooperation Agency
KIO	Kachin Independence Organization
KOTRA	Korean Trade-Investment Promotion Agency

LLC	Limited Liability Companies Law (Indonesia)
MCC	China Metallurgical Construction Corporation
MCI	Ministry of Chemical Industry (China)
MEP	Ministry of Environment Protection (China)
MFA	Ministry of Foreign Affairs (China)
MNRE	Ministry of Natural Resources and Environment (Vietnam)
MOFCOM	Ministry of Commerce(China)
MOHURD	Ministry of Housing and Urban-Rural Development (China)
MOLISA	Ministry of Labor, Invalids and Social Affairs (Vietnam)
MOT	Ministry of Transportation (Vietnam)
MOTIE	Ministry of Trade, Industry and Energy (Vietnam)
NAIC	National Association of Industry And Commerce
NBCP	National Bureau of Corruption Prevention
NDRC	National Reform and Development Commission
NLD	National League for Democracy Party (Myanmar)
NOC	National Oil Company
OBOR	One Belt One Road
ODA	Overseas Development Assistance
ODI	Outbound Direct Investment
OECD	Organization for Economic Cooperation and Development
OPIC	U.S. Overseas Private Investment Corporation
PKI	Partai Komunis Indonesia (Indonesian Communist Party)
POBC	People’s Bank of China
PROPER	Programme for Pollution Control, Evaluation and Rating (Indonesia)
RMB	Renminbi, the currency of the People’s Republic of China
SAFE	State Administration of Foreign Exchange (China)
SASAC	State-owned Assets Supervision and Administration Commission of the State Council (China)
SETC	State Economic and Trade Commission
SFB	State Forestry Bureau
SINOPEC	China Petroleum and Chemical Corporation
SINOSURE	State Export Credit Guarantee Organization
SOE	State-owned company
SSE	Shanghai Stock Exchange
SZE	Shenzhen Stock Exchange
UNDP	United Nations Development Programme
UNGC	United Nations Global Compact
UNIDO	United Nations Industrial Development Organization
VBCSD	Vietnam Business Council on Sustainable Development
VBLI	Vietnam Business Links Initiative
VCPC	Vietnam Cleaner Production Center
VGCL	Vietnam General Confederation of Labour
VISTAS	Federation of Professional Textile Manufacturers

1. Chapter I - Introduction

“With Great power there must also come-great responsibility”

Spiderman

But a government (Vietnam) plan to allow a Chinese company to start mining some of the massive reserves of bauxite lying beneath Vietnam's verdant Central Highlands has provoked an unprecedented backlash from an unlikely assortment of critics.

The Economist, 23 April 2009¹

Burma can benefit enormously from Chinese trade and investment, but there is almost bound to be a backlash if Chinese projects are undertaken with zero transparency and little concern for their impact on local communities.

BBC News, 30 September 2011²

When you look at the 2014 Global Fortune 500 list, 95 companies from China made it onto the prestigious ranking. However, the majority of these companies are state-owned enterprises (SOEs) and three giants in monopoly industries – Sinopec, CNPC and State Grid – rank among Fortune's top 10. So Chinese companies are getting rich, but are they actually competitive globally? This is perhaps a more important question when assessing the relative strength of Chinese companies in an increasingly globalized economy. While the sales and financial assets of Chinese companies have continued to grow for the past decade, the spotlight has increasingly focused on their domestic and global performance in the realm of corporate social responsibility (CSR). While wealth has great influence, as reflected in the old saying “money talks”, the leading companies from China have been forced to make a fundamental change in their strategic thinking.³

World Economic Forum, March 17, 2015

¹ *The Economist*, ‘Vietnam and China: Bauxite Bashers’, 23 April 2009, <http://www.economist.com/node/13527969>

² Rachel Harvey, ‘Asia Pacific: Burma Dam: Why Myitsone Plan Is Being Halted’, 30 September 2011, <http://www.bbc.com/news/world-asia-pacific-15123833>

³ Meng Liu, ‘Is corporate social responsibility China's secret weapon?’, World Economic Forum, 17 March 2015, <https://www.weforum.org/agenda/2015/03/is-corporate-social-responsibility-chinas-secret-weapon>

1.1. Background

The rapid expansion of China's overseas investment in the past few decades has attracted a great deal of attention. The Chinese government launched strong supporting policies in encouraging Chinese companies to make overseas investment, known as 'Going Out'. China has wielded its economic clout via sovereignty wealth fund and huge amounts of foreign reserves to seek investments in energy, technology, finance, and infrastructure in both developed and developing economies. With enormous economic growth and strong policy support for 'Going Out', China's accumulated outbound direct investment (ODI) has increased from USD 29,920 million in 2002 to USD 938,204.49 million in 2015 (see Figure 1.1). According to the Chinese leadership, China's ODI activities are particularly directed toward cultivating foreign relations and promoting China's foreign policy goals to bolster its image overseas. In 2004, the former Chinese president Hu Jintao highlighted the importance of economic diplomacy in protecting Chinese interests overseas, including image building.⁴ In 2008, the Chinese government issued the Notice of Regulating Overseas Investment to stress the need for Chinese companies to uphold the idea of mutual benefit and co-development with the host country and avoid damaging the national image of China or the bilateral relationship with the host government.⁵ In the latest trip to Lima in Peru, Chinese president Xi Jinping reiterated the importance of the

⁴ Di Shi Ci Zhuwai Shijie Huiyi: Hu Jintao Jianghua, Wu Bangguo Deng Chuxi, (The 10th Diplomatic Envoys, Hu Jintao made a speech, Wu Bangguo and other attended), *People*, 31 August 2004, <http://www.people.com.cn/GB/14576/14554/2751683.html>

⁵ Shangwubu, Waijiaobu, Guowuyuan Guoyou Zichan Jiandu Guanli Weiyuanhui Guanyu Jinyibu Guifan Woguo Qiye Duiwai Touzi Hezuo de Tongzhi(Notice of further regulating Chinese companies investing overseas by MOFCOM, MFA, SASAC), *Invest in China*, No. 222, 6 June 2008, http://www.fdi.gov.cn/1800000121_23_59179_0_7.html

One Belt One Road (OBOR) strategy in its intention of forming a ‘friend circle’ that is built on connection, mutual benefit, and cooperation.⁶

Figure 1.1 China’s accumulated non-financial outward direct investment from 2002 to 2015 in USD million

Source: CEIC Database, updated 19 October 2016

However, China’s growing presence in the international investment markets has resulted in mixed responses. On the one hand, Chinese investment brings benefits to the host country as a new source of investment while capitals from traditional developed countries dry up. On the other hand, Chinese overseas business activities faced a number of governance problems that resulted in resistance in host countries: claims of neo-colonial motives in the developing world; irresponsible operations in the investment destination; defiance against labour rights, etc. China’s perceived poor records in the environment and corporate governance have triggered concerns. The

⁶ Xi Jinping Zai Yatai Jinghe Zuzhi Gongshang Lingdaoren Fenghuishang de Yanjiang (Xi Jinping’s Speech in APEC CEO Summit), *Xinhua Agency*, 20 November 2016, http://news.xinhuanet.com/world/2016-11/20/c_129370744.htm

appeal of China's state-led business model to the developing countries is believed to undermine international attempts to promote governance and transparency. China's economic statecraft is also inconsistent. Despite its declaration of becoming a responsible global player, it continues to collaborate with 'pariah' states in pursuit of its own economic interests. Such contradictory behaviour undermines its foreign policy goal of becoming a more responsible power (Canning, 2007, p. 50). The typical examples are the suspension of a few projects in Myanmar, controversial investment practice in Vietnam, Cambodia, Indonesia, and so forth. This has led some to question China's capacity for corporate governance and its intention of becoming a responsible player in promoting sustainable development. Several valuable deals have gone awry, resulting in huge loss of profits, criticism, and resistance from many target countries in Africa, Europe, Latin America, and Southeast Asia for various reasons.

Many multinational corporations inevitably face ethical dilemmas during overseas operations at the early stage of investment (Brenkert, 2009). With relatively longer experiences in ODI, Western firms have established a mechanism for responsible corporate behaviour. They adhere to the norms of international institutions and act responsibly toward their shareholders by disclosing timely information, following regulations, and meeting environmental protection requirements. Their home country also has established a stringent and effective institution to supervise their overseas behaviour. It imposes laws to punish non-compliance. For example, America's Foreign Corrupt Practices Act discourages irresponsible overseas behaviour that damages the national interests of the United States (Kurlantzick, 2008). On the contrary, despite improvement of its CSR institutions, China is beset with problems

related to overseas business supervision and law enforcement.

The research puzzle emerges: Although China has improved its domestic institutions for overseas business governance, why do Chinese overseas investment companies still have relatively poor records for corporate governance? As China has begun to promote its OBOR strategy, the Chinese leaders have increasingly realized the significance of China's corporate governance in its economic statecraft. There is also growing debate on the impact of Chinese investments on the host countries. Most of the literature provides abundant empirical observations and analyses. However, a systematic analysis that incorporates factors from China and the target country is missing in works on China's investment behaviour, and this makes Southeast Asia an interesting region to study.

1.2. China's investment in Southeast Asia

Southeast Asia is an attractive destination for Chinese enterprises going global. China has been investing heavily in resource-rich Southeast Asia. In recent years, most ASEAN countries have witnessed high GDP growth. Individual governments are trying to generate and upgrade investment for domestic public infrastructure spending. These countries have underdeveloped industrial capability while Chinese companies with substantial governmental financing have the competitive advantage in resource development and processing.

The regional cooperation between China and ASEAN has paved the way for China's increasing investment interest in Southeast Asia. The institutionalisation and implementation of China-ASEAN Free Trade Agreement (CAFTA) from 2010 has not only boosted bilateral trade but also created more opportunities for China to invest in Southeast Asia. China's investment in Southeast Asia primarily focuses on transport (such as railway and road), energy (such as natural gas provision facilities and electricity generators), agriculture (such as soybeans, rice facilities, and agricultural equipment) and heavy industry (such as steel, coal, and iron plants). Table 1.1 shows that China's total investment concentrates largely on energy, resource, and infrastructure-related sectors while investment in agriculture and service industry in ASEAN is negligible.

Table 1.1 China's major investment sector in Southeast Asia

Industry/Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Manufacturing	928.995	1141.48	1486.51	1901.76	2565.97	3347.56	4672.52	6132.66	9358.71
Energy	209.518	1385.46	1858.49	2776.68	3802.21	5119.96	6039.15	7225.91	7865.7
Construction	308.347	489.88	675.52	1160.28	1624.36	2216.39	2934.3	3362.13	3861.74
Mining	197.659	438.38	915.31	1843.06	2384.61	4033.28	5280.78	6052.97	6247.43
Wholesale and Retail	600.882	704.3	1634.06	1875.45	2699.32	3558.3	4763.15	5899.8	7537.21
Logistics	253.003	600.58	669.16	841.9	1940.11	2098.15	1385.54	1468.34	1782.6
Agriculture and Husbandry	146.267	191.43	340.54	5298.38	709.36	996.67	1597.08	2444.19	2314.28
Leasing and Commercial Service	446.708	867.26	1051.17	1173.37	2758.87	3387.69	3919.75	6842.83	16088.52
Financial Intermediation	703.664	454	666.35	1761.83	2280.86	2577.48	2810.26	5879.37	4356.19
Real Estate		24.45	59.71	120.17	145.13	182.06	1332.57	1168.12	1161.63

Source: CEIC Database, updated 19 October 2016

China is able to access Southeast Asian energy and resources while expanding its overseas markets for its own products. However, the customary 'trade-follows-investment' pattern does not apply closely in China-ASEAN case. Although China's regional investment is increasing sharply (see Figure 1.2), it is minuscule compared to other countries. The ODI share from China to ASEAN is lower than that from other investors such as Japan, EU and ASEAN, despite the fact that China is the top trading partner of ASEAN (see Table 1.2). China's ODI in ASEAN only accounts for 6.8 per cent in year 2015 (see Table 1.3).⁷

Figure 1.2 China's outward investment in ASEAN from 2007 to 2015 in USD million

Source: CEIC Database, updated 19 October 2016

⁷ It needs to be noted some investments from Hong Kong to Southeast Asia may have originated from mainland of China.

Table 1.2 Top 10 ASEAN trade partners in 2015 in USD million; share in per cent

Trade Partner	Value			Share to total ASEAN Trade		
	Exports	Imports	Total Trade	Export	Import	Total Trade
ASEAN	306,086.45	239,324.60	545,411.00	25.8	21.9	24
China (Mainland)	133,981.81	212,392.70	346,374.50	11.3	19.5	15.2
Japan	114,869.92	124,503.66	239,373.60	9.7	11.4	10.5
United States	129,468.84	83,348.69	212,817.50	10.9	7.6	9.3
European Union	127,916.55	100,244.38	228,160.90	10.8	9.2	10
Korea	46,310.90	76,564.16	122,875.10	3.9	7	5.4
Taiwan	33,435.69	61,334.66	94,770.40	2.8	5.6	4.2
Hong Kong	77,270.13	14,263.32	91,533.50	6.5	1.3	4
Australia	33,029.29	18,772.09	51,801.40	2.8	1.7	2.3
India	39,240.58	19,500.95	58,741.50	3.3	1.8	2.6
Others	143,625.10	140,955.50	284,580.60	12.1	12.9	12.5
Total	1,185,235.30	1,091,204.70	2,276,440.00	100	100	100

Source: ASEAN Statistics,⁸ updated 19 October 2016

⁸ ASEAN, 'Top ten ASEAN trade partner countries/regions 2015', 10 June 2016, http://asean.org/storage/2015/12/table20_as-of-10-June-2016.pdf

Table 1.3 Top 10 foreign direct investment inflows in ASEAN countries from 2013 to 2015 in USD million

Country/Region	Value			Share		
	2013	2014	2015	2013	2014	2015
Japan	24,750.20	15,705.40	17,395.20	19.8	12.1	14.5
European Union	24,511.30	24,989.90	19,666.50	19.6	19.2	16.4
ASEAN	19,562.20	22,134.50	22,149.00	15.7	17	18.5
USA	7,157.20	14,748.50	12,191.50	5.7	11.3	10.2
China	6,426.20	6,990.10	8,155.30	5.1	5.4	6.8
Hong Kong	5,251.20	9,813.20	3,621.10	4.2	7.5	3
Korea	4,303.30	5,750.70	5,680.20	3.4	4.4	4.7
Australia	2,587.30	6,281.50	5,193.00	2.1	4.8	4.3
Taiwan	1,381.80	3,253.90	2,646.40	1.1	2.5	2.2
New Zealand	335.9	550	2,241.10	0.3	0.4	1.9
Others	28,597.40	19,777.40	21,035.50	22.9	15.2	17.5
Total	124,864.50	129,995.10	119,974.80	100	100	100

Source: ASEAN Foreign Direct Investment Statistics,⁹ updated 20 October 2016

⁹ ASEAN, 'FDI Statistics', http://asean.org/?static_post=foreign-direct-investment-statistics.

Southeast Asia is also a key market for Chinese international contracting and labour cooperation. As ASEAN recovered from the 1997 Asian Financial Crisis, its demand for infrastructure and foreign capital related to infrastructure has increased. China's international contractors have the technical capability to support the construction of electric power, telecommunications, and transportation projects in Southeast Asia. The *Service Trade Agreement and Investment Agreement* between China and ASEAN (effective in 2007) has also contributed to the increasing Chinese investment in ASEAN. Chinese contractors have commenced a variety of projects in Southeast Asia in the areas of metallurgy, hydropower, piers, navigational dredging of channels, among others (see Table 1.4).

Table 1.4 Chinese investments and contracts in ASEAN from 2005 to 2016 in USD billion

Sectors	Vietnam	Thailand	Malaysia	Laos	Myanmar	Singapore	Indonesia	Philippines	Cambodia	Brunei	Total
Energy	11.77	0.37	7	8.48	1.58	5.22	16.77	4.22	6.59	2.8	64.8
Metals	1.69		3.34		3.09		9.3	1.02	0.5		18.94
Transport	2.82	0.44	2.97		1.07	3.16	3.53		0.37	0.34	14.7
Real Estate	0.14	1.5	5.72	1.52	0.2	1.57	1.95		0.24		12.84
Agriculture	1.33	0.1		1.5		0.2					3.13
Technology	0.11	1						0.35	0.2		1.66
Utility						0.7		0.11			0.81
Chemicals						0.11					0.11
Tourism				0.1		0.52					0.62
Others	0.42		2.28	0.2		0.41			0.24		3.55
Finance		0.53				1.5					2.03

Source: China Global Investment Tracker¹⁰

¹⁰ China Global Investment Tracker, American Enterprise Institute, updated 20 October 2016.

The expansion of China's ODI in Southeast Asia can be attributed to the rapid economic growth and infrastructure development of the region. First, China deployed specialists and experts to help with economic planning and development strategies. For example, Chinese experts trained the local people in telecommunications development in the rural area and drew up plans on for local tourism development as well as assessed resource extraction-related projects. Second, Chinese overseas investments also increased the employability of the locals by hiring local talents and providing vocational training and study opportunities in China. Third, the presence of Chinese investments also expanded tourism and entertainment industries, such as retail, wholesale, real estate, manufacturing, financial intermediation, and catering. With the presence of Chinese investment, host countries usually benefitted from China's companies venturing abroad.

However, host countries were also confronted with the negative impact from activities of Chinese companies. In particular, the CSR development of Chinese overseas investments was found to lag behind other countries. There are mainly three concerns about China's CSR performance. First, the presence of Chinese overseas investments harmed the local environment because a large portion of Chinese investments were concentrated on resource and energy in Southeast Asia prone to environmental degradation. For example, the Myanmar military government

suspended the Myitsone Dam project funded by China Power Investment Corporation (CPI) because of local protests and potential damage to the ecology and culture. Second, Chinese firms were known for unethical business practices. Some contractors in Vietnam repeatedly violated local law and regulations, leading to serious casualties. They used unsafe equipment that caused serious health and safety risks. The Chinese companies were also accused of not providing fair and safe working conditions and necessary safety training for workers. Third, Chinese firms overlooked the labour interests and thus violated local regulations on labour rights. They did not work with the trade union and defaulted on providing basic welfare and salary to the workers. The Chinese investors paid little attention to the social and cultural context of the host country where monetary compensation for overtime work might not equal respecting labour rights.

The Chinese model of investment is said to be heavily-reliant on the host government. When the host government lacked sufficient means and political will for CSR building, the Chinese companies turned to corruption, violating human rights and hurting the local economies in the process. For example, Chinese investors in Vietnam regarded the approving process for sectors that encourages FDI excessively complex, time consuming, and uncertain. Therefore, they embraced bribery as the fastest way to achieve their desired outcome. Most of the Southeast Asian markets operated in an opaque and unstable investment environment that could easily entice

Chinese companies to ignore the need for advanced development of CSR. Issues over illegal land appropriation, pollution, health care, wages, gambling, and prostitution emerged prominently in China's elitist investment approach that isolated the local society. It is therefore easy for the Chinese companies to become the scapegoat when the local society faces suppression by the authoritarian host government.

Table 1.5 Troubled Chinese-funded projects in Southeast Asia in USD

Year	Investor	Value	Project	Sector	Country
2000	Chinese Government	1 billion	Eucalyptus Pulp and paper joint venture	Manufacturing	Thailand
2005	China Railway Engineering Corp.	85 million	Double Track Railway(Cirebon and Kroya)	Transport	Indonesia
2006	EXIM	100 million	Non-intrusive container Inspection System	Logistics	Philippines
2006	Southern Power Grid	190 million	Hydroelectric Plant	Energy	Cambodia
2006	Chinalco	790 million	Vietnam National Coal-Mineral Industries	Metals	Vietnam
2006	Jinchuan	1,000 million	Philnico	Metals	Philippines
2007	China Merchants Group	1 billion	Vung Tau international container port	Transport	Vietnam
2007	Metallurgical Group Corp.	216 million	Steel and iron plant	Metals	Vietnam
2007	CNOOC	370 million	Talisman Energy	Energy	Indonesia
2007	China Development Bank and Fuhua	Approximately 4 billion	Hybrid Seeds Plantation	Agriculture	Philippines
2007	Perfect Field	1,750 million	Rowsley	Energy	Singapore
2008	ZTE	300 million	National Broadband	Technology	Philippines
2010	Zijin Mining	500 million	Indophil Resources	Metals	Philippines
2010	CIC	1.9 billion	Bumi Resources	Metals	Indonesia
2010	Wanbao	1.065 billion	Letpadaung Copper Mine	Mining	Myanmar
2011	China Power Investment	3.6 billion	Myitsone Dam	Energy	Myanmar
2012	Sinomach	900 million	Northrail	Transport	Philippines
2014	China Railway Engineering Corp	20 billion	Kyaukpyu Railway	Transport	Myanmar

Source: Author's compilation from China Global Investment Tracker by American Enterprise Institute and the Heritage Foundation,¹¹ accessed April 15, 2015.

¹¹ American Enterprise Institute, see <https://www.aei.org/china-global-investment-tracker/>; The Heritage Foundation, see <http://www.heritage.org/>.

The negative fallouts from China's infrastructure projects in Southeast countries have left many projects suspended or vulnerable to criticism (see Table 1.5). The suspension of the Myitsone Dam project severely hurt China's overseas investment as well as bilateral relations between China and the host country. The Chinese state finally recognised the backlash arising from the negative impact of Chinese businesses. China is no different from other countries which are interested in long-term relationships with the host countries. Amid these troubled projects and conflicts between its companies and local people, the Chinese state began to take preventive measures to safeguard its reputation and overseas interests.

1.3. China's policy changes on CSR

There are several drivers in China's adoption of CSR. Internationally, the admission to the World Trade Organization in 2001 has driven China to compete in the global market and to accept the idea of corporate governance, environmental protection, and fair labour practices (Economy and Levi, 2014). In addition, China also changed the perceptions of CSR from an excuse of trade protectionism by the Western countries to understanding it as sustainable social development (Rothlin, 2010). Former Chinese President Hu and former Premier Wen advocated a harmonious society and scientific outlook to showcase China's desire of becoming a responsible country. For this purpose, China aligned its business interests with diplomacy during the Hu administration. Accordingly, the government began to establish and improve

institutional arrangements to raise companies' CSR profile in their operations. China participated in a number of international initiatives that advance CSR development, such as the United Nations Global Compact (UNGC)¹² and the Extractive Industries Transparency Initiative (EITI).¹³ It also encouraged its firms to follow the international standard such as the Environmental Impact Assessment (EIA) in 2003, and Equator Principles in 2008. China also partnered with the United Nations Development Programme (UNDP) to combine the international and Chinese know-how and tackle challenges to sustainable development.

Domestically, since the launch of 'Going Out', China has developed a system of incentives for companies to improve their overseas business performance. Since 2002, when the previous State Economic and Trade Commission (SETC)¹⁴ issued the *Measures for Overseas Investment Comprehensive Performance Evaluation*, a number of policies and regulations have been drafted. In 2004 and 2006, Chinese financial institutions such as the China Development Bank issued policies requiring

¹² UNGC is the largest voluntary corporate responsibility initiative that embraces ten core principles, ranging from respect for human rights to the support environmental protection, see United Nations Global Compact, *The Ten Principles of the UN Global Compact*, <https://www.unglobalcompact.org/what-is-gc/mission/principles>.

¹³ EITI is a coalition of governments, companies and NGOS to promote awareness of environment and disclose investment information to the public so that their government is held accountable. China is not a compliant member in EITI yet, though some of its companies comply with the EITI reporting requirements, see Chinese Companies Reporting in EITI Companies, https://eiti.org/sites/default/files/documents/eiti_chinese_companies_reporting_updated_feb2016.pdf

¹⁴ In 2003, SETC was replaced by Ministry of Commerce due to bureaucratic reform.

environmental impact assessment for financing and loans. In the same year, China adopted its Company Law to make CSR mandatory. The influential Chinese government bodies in China's overseas investment such as Ministry of Commerce (MOFCOM), National Development and Reform Commission (NDRC), and State-owned Assets Supervision and Assessment Commission (SASAC) issued a set of detailed measures for overseas investments. These guidelines include specific information on the host countries, such as regulations governing foreign investments and local custom and culture that Chinese companies should be aware of. Moreover, these government bodies established research centres and think tanks to make policy recommendations on the development of CSR. Industry associations in China also helped member enterprises by formulating codes of conduct to supplement government policies. For example, in 2014, China International Contractors Association and China Chamber of Commerce of Metals, Minerals, and Chemicals Importers and Exporters released an industrial report and a set of guidelines respectively.

These measures were aimed at helping Chinese overseas businesses deal with malpractice. The Chinese government gradually applied measures to ensure that its ODI enterprises would not damage its image and reputation. These measures cover a wide range of policy changes and reforms related to labour issues, medical insurance, production safety, environmental protection, and cultural awareness. More attention

was also paid to business transparency, product quality, and sustainable development. The government-led CSR reforms are expected to elevate CSR standards among Chinese overseas companies, especially when OBOR strategy is elevated to the national agenda.¹⁵

Although the central government embraced the idea of CSR and regulated the overseas business activities, the legacy of China's fragmented institutional structure and incomplete reform have undermined the effective implementation and supervision of its ODI performance. Understanding how China's domestic political economy functions is 'essential to making sense of how its companies perform overseas' (Economy and Levi, 2014). As an authoritarian country, China is believed to have a strong bureaucratic control over the policy implementation, and this is evident in its enormous capital and monetary support for its companies. China has also mandated CSR in its legal system. With such a strong top-down directive to improve overseas investments, China needs to carry out consistent and stringent CSR enforcement to effectively improve its overseas performance. Therefore, this empirical observation leads to a research puzzle to be discussed in the following section.

1.4. Research question and significance

¹⁵ *Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* was issued in 2015.

The above discussion of China's CSR record is particularly relevant to the study of international political economy and China's investment. Thus, it leads to the research question:

Despite China's issue of laws and regulations to regulate its overseas investment, why is China's CSR performance still relatively weak and problematic?

1.4.1. Importance of the study

If economic statecraft is considered as the capacity and programming of a state to use economic instruments in pursuing foreign policy goals, a rising and powerful China is a worthy and ideal case to study. Among different economic instruments, the special political and economic status of China's multinational companies represents a critical role in achieving sustainable growth, and realising China's foreign policy goals of promoting China's image as a responsible great power. Studying the evolving CSR development in China's overseas investment helps us understand the changing course of China's domestic and international political economy.

Previous literature on China's overseas business activities often focuses on the motivations and tools: securing economic interests and exploiting natural resources through companies; promotion of cross-border local economic development; soft power projection; security issues; and huge capital (Chan-Fishel and Lawson, 2007; Norris, 2010; Brautigam and Tang, 2012; Economy and Levi, 2014). There are many

works on China's governance of its overseas investment (Frost, 2002, 2004; Brautigam, 2009; Lum, 2009; IHLO, 2014). However, much scholarly weight has been given to China's investment in Africa while the CSR performance record of China's investment in Southeast Asia is on the rise. Many scholarly works offering empirical evidence of China's business impact in Southeast Asia are available (Frost and Ho, 2005; Yeophantong and Maurin, 2013). However, emphasis is given to the impact of China's weak governance without providing internal reasons from the Chinese side, particularly its state-business relations in the institutional context after a series of economic reforms.

What makes this thesis special is that it aims to provide a deep understanding of how the domestic institutions of the home country and the CSR infrastructure of the host country influence the CSR implementation of multinational companies. Clear signs of deepening Chinese involvement after the announcement of China's OBOR strategy, along with the establishment of the Asian Infrastructure Investment Bank (AIIB), make the study of China's CSR implementation more meaningful. While the OBOR strategy shows promise for Chinese companies grappling with domestic overcapacity and barriers to investment, institutional challenges remain. In particular, the management system for optimising the efficiency of ODI is still lagging behind the pace of ODI itself. Considerable social backlash surfaced in response to the investments by Chinese companies, especially when the investments in developing

countries take place in strategic sectors (such as energy and resources) that trigger economic nationalism. Moreover, Chinese domestic subsidies provided to SOEs cast doubts on their status as commercial entities and engender security concerns in the host countries. This has led to debates within the host countries whether the perceived security concerns should take precedence over economic interests.

Through this empirical research, this thesis aspires to make a valid contribution to the understanding of China's economic statecraft in the CSR framework by (a) looking at an often neglected segment which regards the evolving roles of the major business actors and the externalities on the state-to-state relations; (b) adding to the scant research on the puzzle of why the Chinese CSR performance is relatively weaker, despite the state's legal and political mandates; (c) providing an analytical framework for understanding the empirical situation and identifying common problems facing Chinese investments in different countries and considering individual CSR infrastructure development levels; (d) enriching the understanding of China's 'Going Out' and providing insights to improve the current situation of China's overseas investment both for the Chinese government and the target country in the context of the OBOR strategy.

1.5. Research Design

1.5.1. Case Studies

Case studies constitute a common method for testing hypothesis. Given the reality that developed countries have very few problems of CSR implementation, this thesis focuses on developing countries, specifically on Southeast Asian countries as area study. It sets out to develop a more detailed analytical framework of China's CSR and aims to identify patterns of China's CSR in Southeast Asia.

First, China regards Southeast Asian countries as very important economic partners. The region boasts abundant resources, such as rubber, oil, and natural gas, that could be very useful for China's continued economic development. Given the geographical proximity, Southeast Asia is economically important for Chinese Southwest provinces, especially those adjacent to the borders of Southeast Asian countries. For example, the barter trade in the border region of Guangxi Province with neighbouring Southeast Asian countries accounts for 70 percent of barter trade in China in 2016.¹⁶ Southeast Asia is also a destination for Chinese companies to transfer their production facilities due to rising labour costs and overcapacity in China. Moreover, Southeast Asia is a region that demands for large investment, especially in infrastructure, an area that China has competitive advantage.

¹⁶ Guangxi Hushi Maoyie Zhongguo Diyi-Jiakuai Jianshe Kouan Jingjidai (ranking Number One in the barter trade in border trade of China), http://www.gxzf.gov.cn/zjgx/gxydm/jmwl/201701/t20170123_494493.htm, accessed on March 26, 2017.

Second, Southeast Asia is geopolitically important for China to expand its influence, amid competition with the United States and Japan. Among the competition, economic element is one of them. As China tries to play charm offensive to its Southeast Asian neighbours amid intensive geopolitical competition, its image and reputation become crucial to win over the investment projects in these countries. As China continues to promote its OBOR strategy, the degree of implementation of an effective CSR as part of its economic diplomacy becomes critical.

In terms of country case selections, this thesis has chosen Indonesia, Vietnam and Myanmar. These three countries represent different variations that make the study more comprehensive and scientific. First of all, the three countries stand for different political systems, with Indonesia being democratic, Vietnam being socialist and authoritarian and Myanmar being military junta before the National Democratic League took power. The different types of political system can cover almost all of the developing Southeast Asian countries. Second, the three countries also represent different relations with China, with Myanmar under military junta being heavily dependent and close to China; Vietnam economically dependent but politically distrustful of China due to the South China Sea dispute; and Indonesia being economically active with China but still suspicious of China largely due to historical reasons. Third, the three countries also represent different levels of economic development and various external economic interactions with the outside world.

Indonesia is more experienced and exposed to CSR since it has a more open economy. It has the largest economy and much more diversified trade and investment relations with other countries such as Japan. Vietnam has been open since it launched its opening up policy for foreign companies at a very fast pace but it has a short history of interacting with the outside world economically. Myanmar before the democratic transition in 2011, the sanctions from the West under military junta led to heavy dependence on China's investments and trade.

Many contributed China's bad CSR records in Myanmar to the close relationship between China and the Myanmar military junta. But this state-to-state relations perspective does not explain why Japanese and South Korean investments in Myanmar have performed well in their CSR. Also, Vietnam's long-term distrust towards China contradicts the logic of political closeness being a predominant factor to explain China's weak CSR performance. Indonesia represents another example in China's economic statecraft with more business-to-business dimension after China abandoned its ideological exports to Southeast Asia. China was a late comer in Indonesia's foreign investment inflows in comparison with countries such as Japan. However, it has relatively better CSR performance record although its CSR implementation lags behind other Western companies in general.

Considering specific case selections of Chinese overseas business in Southeast Asia, oil, hydropower and contracting are the dominant sectors where China invests. PetroChina was chosen to present a company with close ties with China's state. With this close state-business relation, PetroChina responds actively to the governmental call to improve CSR overseas, despite lacking a defined institutional mechanism for oil industry. China Investment Power, a hydropower development company was selected to represent the conundrum that institutionalized policies of CSR in China's overseas hydropower investment did not have an effective implementation on the ground, especially in Myanmar. The Sixth Group of CREC, a subsidiary of China's national railway company was chosen to show the construction company is situated in the most liberalized but least regulated sector that exacerbated the non-compliance activities in Vietnam.

The selection of State-Owned Enterprises only can be justified in the following points. First of all, this thesis mainly concentrates on national companies as they are the main driving force of Chinese investments overseas, accounting for 85 to 90 percent in China's overseas investments. SOEs are classified as state actors despite their business prerogatives, the influence the Chinese state has on these firms is noticeable, with variations. Some SOEs are much closer to the state, while others may be more driven by market. It will be another research topic on whether Chinese private companies will change the observation. Second, based on the literature and

empirical observations, investments from Chinese private companies are relatively small-scale and predominantly on retail, Merge & Acquisition. Their CSR problems also loom large but not as politically significant as Chinese national companies. Instead, national companies carry on the economic, political tasks and even foreign policy objectives that necessitate SOEs to better implement CSR. In general, there are no sharp differences between SOEs and private companies in terms of CSR performance because they both face domestically institutional factors. In high-valued sectors, the patterns of private companies and SOEs are similar and as a matter of fact, private companies in these sectors are believed to have done better on CSR because they constantly try to build a more positive image and name brand for the purpose of competition in foreign markets. Moreover, in the sector of low-value added industries such as infrastructure and energy, SOEs and private companies perform similarly on CSR.

1.5.2. Structure

This study sets out to develop a systematic analysis of China's CSR performance that bridges the gap between the roles of the domestic institutions and the CSR regime of the host country. This thesis begins with the following observation: China's enormous economic growth and massive ODI do not boost its responsible image as it claims to be. The Introduction chapter highlights the research question and its significance for research, especially in the context of China's recent economic

diplomacy such as OBOR strategy and AIIB. Chapter II explains the analytical framework on which this study is built. It provides the literature review and explores new contributions before introducing the conceptual model in which the Independent Variables (IV) and Dependent Variables (DV) are constructed to explain the causal mechanism.

Chapter III examines PetroChina's investment in Indonesia by evaluating the domestic institution for China's oil sector and how the embeddedness of the Chinese company affects its behaviour in Indonesia. It also includes factors from Indonesia that also contribute to the CSR performance of PetroChina. Chapter IV studies China's hydropower investment in Myanmar by assessing the institutional reforms of Chinese hydropower sector and its impact on overseas behaviour. The finding is that China's home-grown business practice exacerbated the weak CSR regime in Myanmar. Chapter V examines China's contracting business in Vietnam by comparing China's old reform with current reform of the construction industry, and tracing historical patterns that lead to chaotic and unregulated business behaviour. When it comes to a country with less transparency and weak civil society, Chinese companies find it easier to take advantage of the loopholes when its home institutions and the host government are unable to punish the non-compliant parties.

Chapter VI concludes that the economic statecraft becomes more prominent in promoting China's images and influences for domestic and foreign policy goals. Amid geopolitical rivalry, economic statecraft serves as a moderate approach for forging stable Sino-Southeast Asian relations. Adopting the CSR concept is one of the national strategies to ensure that overseas investments truly advance (not undermine) foreign policy objectives. For Chinese companies, understanding and practising CSR would be a steep learning curve. As China is undergoing structural changes to upgrade its industry, it is believed that China will play a more proactive role in the international economy. It will gradually approach the international frontier of business practices, such as improving the overseas investment legal system, environmental protection, business ethics, and corporate governance. Last but not least, a much better use of Chinese investment will require host countries to improve their investment environment and depoliticise Chinese investments.

2. Chapter Two - An Analytical Framework

2.1. Introduction

Since the late 1970s, China has experienced extraordinary growth, spurred by privatisation and de-nationalisation of the enterprises. Along with the entry into the WTO, there has also been a significant outflow of investments from China into the global economy over the past three decades. However, the overwhelming FDI outflows were marred by increased unethical and unsupervised practices among Chinese companies, and higher rates of social and environmental violations. Challenges such as pollution, labour rights violation, corruption, and environmental degradation need to be tackled by the Chinese government. Challenges from overseas investment have evoked a series of governmental actions, and the Chinese government increasingly looks to international cooperation for policy advice. Accordingly, many companies have started fulfilling the functions of corporate citizenship in the target country and assuming social responsibility that goes beyond legal requirements. However, factors such as fragmented coordination, absence of an independent supervisory body, ambiguity and misunderstanding of the law, and weak enforcement have caused China to lag behind its claims of being a responsible power. Further, the existence of an ineffective CSR regime in the host country where China invests also creates loopholes for opportunism among Chinese companies. It becomes a major challenge for the Chinese government to improve the governance of its own business actors.

This chapter introduces the *corporate social responsibility* (CSR) concept and the implications in China's context in Section 2 before it provides the literature review related to the research question. Thereafter, this chapter introduces two important courses in China's CSR development, the process of adoption and adaptation in Section 3 before presenting highlights on the common practice of CSR in advanced countries such as the United States in Section 4. The summary based the above observations is followed by an analytical framework, the hypotheses and conceptual model for this thesis. In this conceptual model, a causal mechanism on China's CSR outcome is established from two aspects: the institutional shortcomings of China and the development level of the CSR regime in the host country.

2.2. Understanding Corporate Social Responsibility

The CSR concept was born in the nineteenth century when England, Germany, France, and other industrialised economies distinguished themselves by their social preoccupations: social insurance and charitable donations. Likewise, certain religious congregations also began to extend their influence in the business place. Based on the social needs of the early twentieth century and the social demands for widespread enactment of laws and social protection, the charitable spirit began to stifle demands for legislative projects and institutions.

The concept of CSR was made on the assumption that the industry is seen as an equal social participant and would manage profits in a responsible manner (Bowen, 1953). The objectives were a mix of philanthropy and voluntarism. In contrast, some believe that the primary responsibility of a firm is to maximize the economic returns and shareholder value as long as their business activities are legal (Friedman, 1970). Hence, CSR is about ‘a new management and strategic philosophy’ for all types of companies. In 1980s, the CSR concept included the idea that the industry is not only responsible to shareholders but to all relevant stakeholder participants. This vision marked a turning point in understanding CSR.

Later, new elements of CSR were added to the operations of global business. The role of CSR in sustainable development began to gain credibility in international norms, with the lead taken by international organisations such as United Nations Development Programme (UNDP), Organisation for Economic Cooperation and Development (OECD).

2.2.1. Definitions and concepts

There is no consensus on the definition of CSR. This is because the CSR concept is understood in many ways: business ethics (Hopkins, 2003), corporate citizenship (Idemudia & Ite, 2006; Mullerat, 2010), corporate governance (OECD, 2001; Dashwood, 2012), and sustainable development (World Bank, 2006; Report on the

Sustainable Development of Chinese Enterprises Overseas, 2015). In 2011, the United Nations Human Rights Council endorsed the Guiding Principles,¹⁷ which reinforced the respect of human rights. The principles emphasised three core principles: 'the State duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect human rights; and the need for more effective access to remedies' (Ruggie, 2011).

Despite different emphasis on different analyses of the concept, current literature shows several common features of CSR:

- a. CSR is generally defined as a condition where companies integrate social and environmental concerns into their business operations via voluntary interaction with the stakeholders.
- b. The stakeholders include the community where they operate their business, consumers, government, NGOs, etc.
- c. Specific CSR expectations include: first, abiding by the existing local laws and regulations on labour, human rights, and the environment; second, fulfilling the beyond-law obligations based on the impact of economic activities on the social and ecological systems; third, developing companies' self-regulatory initiatives and responses to community

¹⁷ 'Guiding Principles on Business and Human Rights: Implementing the United Nations' Protect, Respect, and Remedy' Framework', <http://business-humanrights.org/en/un-guiding-principles>.

demands and expectations, and fostering good relations with the local communities.

China's understanding of CSR has several aspects. First, companies serve as corporate citizens for the government, and voluntarily shoulder the responsibility required by the State law such as paying tax and providing employee welfare. Second, companies are responsible for the interests of shareholders regarding investment returns and for providing credible information for decision-making. Third, companies are responsible for providing quality service to the customers while being receptive to public supervision and government intervention. Fourth, the growing awareness of responsibility to the environment protection also contributes to the assessment of the extent of business activities. Last but not least, companies ought to assume the responsibility of contributing to the community.¹⁸

This definition has led some Chinese companies to label CSR as corporate philanthropy and business ethics (Yin and Zhang, 2012; Cui, 2014; Li, 2015; Report, 2015). This idea of CSR is misleading because charity is a matter of preference. China's CSR culture still stays within the boundary of business ethics whereas international CSR norms undergird the obligation of organisations to all stakeholders (and not just shareholders). Chinese corporate philanthropy has been on the rise in

¹⁸ CSR-China. 'Qiye Shehui Zeren de Fanwei shi Shenme.' (What is the scope of Corporate Social Responsibility) 14 December 2015, <http://www.csr-china.net/html/CSRrenzhi/20151214/3478.html>.

many countries and that includes cash contributions, grants, donations, medical treatment, housing, and student loans. In this regard, the Chinese understanding of the CSR concept deviates from the international interpretation that includes concepts such as governance and human rights.

Despite the differences, there are common CSR features between Chinese and international perceptions. For example, the baseline of good corporate behaviour is evident when both sides follow a sound regulation system. CSR implementation helps the state to ensure that companies engage in self-regulation, active promotion of public interest, and responsible behaviour with respect to the shareholders in the company (Report, 2014; Blue Book of Corporate Social Responsibility, 2015; Li, 2015).

2.2.2. Literature of China's CSR performance in overseas investment

Literature on China's CSR performance, especially on China's domestic performance, is abundant but few (if any) address the research question on cross-border investment performance. General findings can be summarised as groups that contribute to the understanding of China's CSR: organisational and managerial factors, development stage theory, conditions of host country, institutional environment, and conflicting ideas between China's understanding and international norms diffusion.

One school of thought, which comes from the discipline of business management studies, focuses on the organisational factors, argues that the variation in CSR performance is linked to corporate organisational structure and culture. Chinese managers generally support the view that business interests and efficiency take precedence over social responsibility (Shafer, Fukukawa, & Lee, 2007; Lau, Lu , & Liang, 2016). Therefore, the Chinese businesses sometimes forego ethics to seek profit maximisation. However, CSR implies a quite specific model for how to organize the relationship between state, market, and civil society, which is a fundamental political question in any society. In this respect, the dominance of business and management disciplines' within CSR theory is problematic, as it largely ignores the political context to analyze CSR.

The second group of scholars examine CSR from the development stage perspective. A number of Chinese scholars tend to attribute China's poor CSR record to Chinese companies' overseas investment incompetence due to inexperience (Cui, 2014; Li, 2015). Such ideas originate from the development path of the West. In the West, economic interests are sought at the expense of social and environmental development during the early stage of industrialisation (Philippe and Shi, 2009). By this logic, the poor performance record of Chinese companies is considered merely transitory. The idea that the longer Chinese SOEs and Chinese overseas business

operate, the better their records of CSR performance is supported by data and surveys (Wang, Song & Yao, 2013; Duan, et al., 2015; Report, 2015; Blue Book of Corporate Social Responsibility, 2015). Performance is expected to improve when China's domestic economic structure undergoes reform. However, such analysis is unable to account for why the CSR of Chinese investments in developed countries is a lot better.

The third school of thought focuses on the weak governance of the FDI recipient country. Although they do not conduct thorough research on the CSR regime construction of the recipient country, they point out that weak governance on the part of host governments are mainly responsible for the poor CSR implementation of Chinese investments (Frost, 2004; Taylor, 2009; Brautigam, 2010; Maurin and Yeophantong, 2013; Ray, Gallagher, Lopez, and Sanborn, 2015). Nonetheless, such studies cannot explain why companies from countries such as OECD countries have better CSR records in Southeast Asia.

The fourth major approach to the study of CSR treats CSR as a Western concept that requires different actors to participate in the business operation would disclose confidential business information and thus block China's economic potential (Wang, Song, and Yao, 2013; Duan, et al., 2015). China's business practice is based on profit maximisation whereas Westerners follow norms of promoting labour rights and

supporting the use of environmental-friendly products (Zu and Song, 2009). Accordingly, some proponents believe that Chinese companies which do not know how to deal with Western norms are biased against CSR (Yin and Zhang, 2012; Duan, et al., 2015). However, the evolving regulatory system in China shows that the Chinese state is likely to embrace international initiatives such as United Nations Global Compact. China has also begun to enhance its monitoring capabilities and make CSR mandatory in its overseas investment projects.

Another major approach to the study of CSR provides indirect answer (but a new way) to understand the weak performance of overseas Chinese CSR. Factors such as movement of NGOs in a society, legal system, and the market response to the economic activities are considered critical in CSR promotion. Insufficiently-defined incentives and penalties from institutions lower the level of Chinese CSR performance (Lin, 2010; Yin and Zhang, 2012). Although institutional explanation provides insights into China's CSR behavioural outcome from the perspective of home institutions, it fails to explain why Chinese companies with the same ownership outperform others in the same home institutional setting. For example, Chinese national oil companies have a better record of CSR in developing Southeast Asian countries while Chinese national construction companies have worse records.

Finally, there is a group that explains CSR development through constructivism. They explain how the evolving global CSR norms influence corporate behaviour

(Dashwood, 2012). Dashwood provides a theoretical framework for business entities' adoption of CSR concept and cites examples of the Western mining industry. She further explains from the perspective of country of origin effects for the multinational companies. Owing to enduring institutional arrangements, there will be greater homogeneity among companies in the same host country. Home country heterogeneity will be reproduced in host countries where multinational corporations invest, rather than producing convergence (Dashwood, 2012, p. 3). This theoretical framework provides insight into companies' interaction with international norms and adjustment to reality.

Several scholars have investigated the relevant research activities among Chinese scholars regarding CSR in recent years. They discover that there is neither literature review that focuses exclusively on CSR in China (Bhutto, Chanar, & Robson , 2014) nor on CSR of China's overseas investments. This thesis aims to explain the debate within the Chinese scholarship on CSR in order to provide a more comprehensive and balanced overview for understanding Chinese CSR.

In the Chinese literature, there are some discussions on CSR issues in China. Some scholars attribute CSR problems to rent seeking behaviours when the companies seek for policy influence or economic benefits and offer bribes to those individuals or organizations that are in charge of public power (Chen & Cao, 2016; Xiao & Zhang,

2016). Before the companies (the managers) succeed in their bribery activities, they are usually more serious about CSR activities. However, once they obtain support or tacit permission from the decision-makers, their willingness of implementing the required CSR standards drops (Huang, 2014). Some scholars contend that some Chinese companies use good CSR performance as a strategic action to build, maintain or enhance proper ties with various government institutions in order to access state resources (Li, Song, & Wu, 2015). In this sense, these companies' approach to and priority given to CSR serves as strategies for cultivating political ties (Zhao, 2012). Other scholars study CSR in China from corporate ownership theory. They argue that SOEs pay more attention to the interests of the Chinese government as the latter acts as a very important stakeholder. The close connections between the state and the SOEs lead to serious problems in CSR performance because the government-appointed managers represent interests of the government to maximize profits rather than serve the interests of the public (Mi & Wang, 2000; Li & Zhang, 2010).

As discussed above, the majority of scholars in China analyse CSR inside China from the developmental stage theory. They argue that the economic conditions in China have not yet created a ripe environment for the Chinese firms to implement proper or high-standard CSR. The fact that China's market economy system has had a short history limits Chinese companies' capabilities of implementing CSR. The strong competitive pressure in the market and high costs of CSR implementation pose

significant challenges for CSR progress in China (Graafland & Zhang , 2014). Many problems emerged during the process of transition from the planned economy to the market-oriented economy such as undefined interests of stakeholders and absence of protection from the legal system (Xu & Yang, 2010). Further, the dual pressures for rapid economic growth as a national primary task and the society's high expectation of provision of many public goods constrain the governmental efforts to implement CSR (Shen & Cheng, 2007). Scholars like Lin believe that the gaps between the official CSR requirements and the actual implementation are results of a lack of awareness CSR awareness at this stage of China's development. Companies and the government may have the incentives to develop CSR. Yet, the Chinese government prioritizes some CSR issues over others, resulting in uneven development of CSR (Lin, 2010). It remains to be seen how the Chinese central governmental institutions in charge of CSR are able to engage with the civil society to promote better CSR in China in future (Ho, 2013).

Another Chinese school of thought relates the domestic CSR performance with factors such as culture, history and tradition. In their view, the institutionalization of CSR in China depends on the impacts of culture, ethics, values, religion and the level of the government's attention on CSR (Lin, 2010; Yin & Zhang, 2012). Some even attribute CSR weaknesses in China to the deterioration of business ethics during the era of the planned economy and the negative repercussions of the Cultural

Revolution, and even the low ethics standards of the Chinese business community. Thus, in their view, the establishment of higher moral standards in the Chinese business world is very important for the purpose of improving CSR in China (Zhang, Morse, Kambhamptati , & Li, 2014).

Due to the unique domestic conditions that China faces now, some scholars compare the differences between the Chinese and Western perceptions of CSR and highlight the indigenous characteristics of Chinese CSR (Szeto, 2011; Xu & Yang, 2010). Some of them thus question the apparently universal standard of Western CSR. They further implicitly indicate that it is inappropriate to evaluate indigenous Chinese CSR performance based solely on the Western CSR standard (Kao, Fung, & Li, 2014; Xu & Yang, 2010).

All in all, in the existing literature, there is a striking lack of contextually informed analyses of the social, political and economic antecedents of CSR as well as of the wider governance implications of CSR. The literature is flawed in several aspects. First, most studies seem to be descriptive. Systematic analysis is lacking. For example, when authors discuss the development of China's CSR, they pay attention to media comments without exploring fundamental reasons and their works do not include home institutional perspectives. Second, variations in China's overseas CSR performance country cannot be identified because comparison of CSR practice is

lacking. The specific CSR research on emerging economies such as China is limited when compared to the work on advanced economies such as OECD. Third, a thorough study on the specific recipient country of China's foreign investment is required. Given the importance of Southeast Asia in China's OBOR Initiative, it is necessary to study the regime where China invests. Therefore, China's CSR implementation is not the only determining factor in evaluating its performance. Fourth, the literature fails to take into account of the fact that the authoritarian status of the state implies that the state can employ administrative, legal, and political tools to manoeuvre business agents' activities to produce desired outcomes. In fact, the Chinese state often intervenes in its enterprises as the law enforcer (Milhaupt and Zheng, 2016).¹⁹ It is a puzzle that business agents' CSR activities are able to escape state control and intervention. Last but not least, current literature fails to provide a comparison of China's CSR development in different period and also fails to address implications on CSR performance. The study of Chinese CSR in different period is needed for readers to identify fundamental reasons for China's weak CSR performance.

¹⁹ The two Chinese SOEs Maotai and Wuliangye changed their liquor selling price without notifying the state. The NDRC, the price regulator warned them of violating the Anti-monopoly Law. The state intervened like a law enforcer, not a controlling shareholder. The private sector is more subject to such law enforcement.

Recognizing that social sciences provide crucial insights and correctives to the largely business-dominated understanding of CSR, this thesis aims to contribute to a more contextually and structurally informed understanding of the political economy of Chinese CSR by incorporating institutional deficiency of China and the CSR development level of the host country.

2.3. CSR in China: adoption and adaptation

This thesis uses two dimensions to measure China's CSR adoption and adaptation. CSR adoption reflects the degree to which the Chinese state streamlines existing institutions; CSR adaptation displays the extent of institutional innovation.

The Chinese government is considered to be a key driver in the promotion of CSR. The concept of social responsibility has since been mentioned in top-level official documents and in speeches by senior government officials in China. Former President Hu Jintao's 2005 statement declaring the country should construct a 'harmonious society,' the widely publicized socio-economic goal of the Chinese government, provides a favorable political and social environment to encourage CSR development. Compliance with national policy, legislation and regulations is ranked as the top incentive in terms of CSR implementation for Chinese companies. At the domestic level, growing awareness of such issues has generated an emerging trend of Chinese entities promoting and adopting CSR initiatives. Increasing media concern with environmental issues, new environmental and CSR laws and regulations, and the

harmonious society concepts, became domestic drivers for CSR in China. An example of such changes can be seen in the new Company Law of 2006, which states that ‘corporations in their business operation must abide by the laws, regulations, social and business morality and good faith rules, must accept supervision by government and the public, and must undertake social responsibilities’. In 2007, the Ministry of Commerce also issued a circular on ‘enhancing environmental surveillance on exporting enterprises’ to restrict socially irresponsible enterprises from conducting foreign trade’ (MOFCOM, 2007). At the Third Plenary Session of the 18th Central Party Committee on comprehensive reform in November 2013, social responsibility was announced as one of eight focus areas for further reform for Chinese SOEs. For example, the Ministry of Commerce (MOFCOM) has issued official documents urging Chinese companies investing or operating overseas to implement CSR. In 2015, SASAC issued its second set of guidelines for SOEs on how to ensure the implementation of CSR practices through an effective management system.

International clients are also considered to be another important driver of CSR development. Chinese companies involved in international supply chains are highlighted by the respondents as the first group of companies to introduce CSR practices, although they may not have fully understood the concept in the beginning. The demands from domestic customers and NGOs also require Chinese companies to

pay more attention to CSR. Global financial institutions along with growing pressure from international organisations are encouraging China to demonstrate a commitment to addressing the environmental impacts of its overseas projects.

China's development strategy of 'Going Out' was directly and indirectly accompanied by various CSR regulations and directives. Its still-evolving regulatory system shows that the Chinese state has an aptitude for developing overseas investment strategies for monitoring and promoting corporate social responsibility and environmental sustainability. From 2002, governmental bodies such as the State Economic and Trade Commission (SETC) issued *Measures for Overseas Investment Comprehensive Performance Evaluation* (Trial). From then onwards, the Chinese government issued different documents and as a result, more and more government agencies got involved. These measures address many aspects of overseas investment: investment performance, labour issues, environmental protection, reporting system, overseas contracting business, employee management, security-risks assessment, supervision and monitoring, sustainable development, culture building as well as anti-bribery (see Table 2.1).

Incorporating standards of CSR in business activities helped Chinese companies improve business performance and increase economic growth (Hanlon, 2012). In an effort to increase companies' competitiveness, the Chinese government sought to

incorporate CSR into business operations. The annual meeting of the National People's Congress in 2005 officially endorsed the need for Chinese firms to integrate social responsibility into outward investment strategy. When CSR was written into Chinese company law in 2006, more stringent domestic environmental standards were established. Companies had to begin publishing corporate responsibility reports, and installing environmental and safety departments (though few had social or community relations specialists).

In 2008, SASAC issued *Guidelines on Fulfilment of Social Responsibility by Central Enterprises (Effective)*, which further stipulated that companies, particularly SOEs, had to adopt CSR measures. In November 2009, the first China Overseas Investment Fair attached importance to CSR, highlighting the significance of cultural differences in investment activities. The Chinese official He Maochun pointed out, "The quality of Chinese overseas investments does not only represent themselves but also stand for the national image and responsibility".²⁰ In 2013, MOFCOM and MEP issued *Guidelines on Environmental Protection in Overseas Investment and Cooperation*. The Guidelines take a holistic approach to urge Chinese firms investing overseas to actively employ CSR standards in labour matters, environmental protection, supply chain due diligence and human rights. Chinese companies were requested 'to identify

²⁰ He Maochun, The First China Overseas Investment Fair Attaches Importance to CSR, *China WTO Tribune*, 12 (77), 2009.

and pre-empt environmental risks in a timely manner, lead companies to actively fulfil their social responsibility in environmental protection, build a good foreign image of Chinese companies and support the sustainable development of host countries.’

Legislation and CSR-related guidelines in China already cover quite a wide range of CSR issues, including labour conditions, environmental protection, consumer rights and anti-corruption. Some interviewees in this research (including from reports from media reports) believe that in areas such as labour conditions and environmental protection, legislation in China matches – and, in some instances, may even surpass – international standards. However, most respondents also believe that insufficient enforcement and the relatively low business cost for violating such regulations may be undermining their effectiveness in terms of driving the CSR development agenda forward. Another common view among the respondents in the interview is that the majority of Chinese companies still view CSR through a lens of philanthropy, public relations or crisis management, lacking of long-term CSR strategy, knowledge and professionals.

Table 2.1 Major policy and law on directing China's overseas investment from 2002 to 2015

Year	Issuer	Policy Name
2002	State Economic and Trade Commission (SETC)	Measures for Overseas Investment Comprehensive Performance Evaluation (Trial)
2002	SETC, State Administration of Foreign Exchange (SAFE)	Interim Measures for the Joint Annual Inspection of Overseas Investments (Effective)
2004	Ministry of Commerce (MOFCOM)	Measures for the Administration on Overseas Labour Training (Effective)
2004	MOFCOM	System of Reporting Country Investment and Operation Obstacles (Effective)
2005	MOFCOM, Ministry of Foreign Affairs (MFA), State Administration of Work Safety (SAWS) and State-Owned Assets Supervision and Administration Commission (SASAC)	Notice of Work Safety on Strengthening of Overseas Chinese-funded Enterprises (Effective)
2007	State Forestry Bureau (SFB), MOFCOM	Guidelines on Sustainable Cultivation for Chinese Enterprises Overseas (Effective)
2008	SASAC	Guidelines on Fulfilment of Social Responsibility by Central Enterprises (Effective)
2008	MOFCOM, MFA, SASAC	Further Regulating the Foreign Investment Cooperation of Chinese Enterprises (Effective)
2008	State Council	Administrative Rules for Overseas Contracting (Effective)
2009	SFA, MOFCOM	Guidelines on Sustainable Operation and Utilisation of Overseas Forests by Chinese Enterprises (Effective)
2009	MOFCOM, Ministry of Housing and Urban-Rural Development (MOHURD)	Measures for the Administration of Overseas Contracting Qualification (Effective)
2010	MOFCOM	Overseas Security Risk Early Warning and Information Release System of Foreign Investment Cooperation (Effective)
2011	MOFCOM, MFA, SASAC, All-China Federation of Industry and	The Guidelines for the Management of Employees of Overseas Chinese-

	Commerce (ACFIC)	funded Enterprises (Institutions) (Effective)
2011	SASAC	Interim Measures for the Supervision and Administration of Overseas Assets of Central Enterprises(Effective)
2012	MOFCOM, International Communication Office of the Party (ICO), MFA, NDRC, SASAC, National Bureau of Corruption Prevention (NBCP), National Association of Industry and Commerce (NAIC)	Several Opinions on Culture Building of Overseas Chinese Enterprises (Effective)
2012	SASAC	Interim Measures for the Supervision and Administration of Overseas Investment of Central Enterprises (Effective)
2013	MOFCOM	Key Points on Regulating the Overseas Business Operations of Enterprises and Preventing and Controlling Overseas Commercial Bribery (Effective)
2013	MOFCOM, Ministry of Environmental Protection (MEP)	Guidelines on Environmental Protection in Overseas Investment and Cooperation (Effective)
2013	MOFCOM	Provisions on Regulating Competitive Behaviours in the Fields of Foreign Investment Cooperation (Effective)
2013	MOFCOM	Compilation of Documents on the Construction of China's Foreign Investment Cooperation Enterprises (Effective)
2013	MOFCOM, MFA, MHURD, General Administration of Customs (GAC), State Administration of Taxation (SAT), State Administration for Industry and Commerce (SAIC), General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ), and SAFE	Measures for Bad Credit Records in the Field of Foreign Investment Cooperation and Foreign Trade (Trial)
2014	MOFCOM	Measures for the Administration of Overseas Investment (Effective)
2015	National Development and Reform Commission (NDRC), Ministry of Foreign Affairs(MFA), MOFCOM	Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road (Effective)

Source: Author's adaptation from *Report on Sustainable Development by Chinese Overseas Enterprises* ²¹

²¹ 2015 Chinese Overseas Enterprises Sustainable Development Report, <http://www.undp.org/content/dam/china/docs/Publications/UNDP-CH-2015%20report%20on%20the%20sustainable%20development%20of%20chinese%20enterprises%20overseas%20CN.pdf>, accessed 27, March 2016.

In substance, the new guidelines are similar to the environmental recommendations of the *OECD Guidelines for Multinational Enterprises*. The OECD Guidelines cover a broad range of international norms from human rights to labour relations and corruption and are most relevant for foreign investors. Unlike Chinese guidelines, OECD Guidelines are wider in scope and lack specific guidelines for banks and the environment. Brazil, Argentina, and numerous other non OECD-countries endorsed the OECD Guidelines for their own companies. Chinese enterprises take their own government recommendations more seriously than the OECD Guidelines.²² This is because China is not interested in following norms created by an external party.

As a fast-developing concept in China's financial market, more and more regulators, stock exchange authorities, and other stakeholders are getting involved. In 2006, the People's Bank of China (PBOC) collaborated with the State Environmental Protection Administration (now the Ministry of Environmental Protection (MEP)) to integrate information on corporate pollution records into a single corporate credit database. PBOC urged all banks in China to conduct a strict environmental screening process prior to making loans to companies. This became widely known as the 'green lending campaign'. Since 2004, more banks have released CSR reports on corporate

²² <https://www.internationalrivers.org/resources/china-sets-out-green-guidelines-for-energy-firms-7947>, accessed 27, March 2016.

governance and employment relations (see Table 2.2). Although these reports do not focus on how environmental, social, and governance (ESG) issues influence the banking business, CSR has opened a good opportunity for Chinese financial institutions to make improvement.

The Chinese version of social responsibility which involves the obligation of extending duties beyond shareholders to stakeholders was finally introduced in the Company Law in 2006. According to *Article 5*, ‘when undertaking business operations, a company shall comply with the laws and administrative regulations, social morality and business morality. It shall act in good faith, accept the supervision of the government and general public, and bear social responsibilities.’ China’s policy banks —China Development Bank (CDB) and Export-Import Bank of China (EXIM Bank) — issued policies of lending assessment to the companies. More specific rules were also introduced by Chinese stock exchanges. The Shanghai and Shenzhen stock exchanges issued their *Social Responsibility Guidelines for Listed Companies*. In 2012, China Banking Regulatory Commission (CBRC) issued *Guidelines on Green Credit* to emphasise the environmental assessment for all the banks.

Table 2.2 Major policies and guidelines from financial institutions

Date	Issuer	Policy Name
1995	People's Bank of China (PBOC)	Announcement on Credit Policy for Environmental Protection
2004	China Development Bank (CDB)	CDB Lending Assessment Handbook (Effective)
2006	CDB	The Environmental Impact Assessment Framework for Lending to Small or Medium-Sized Enterprises (Effective)
2007	Export-Import Bank of China (EXIM Bank)	Guidelines for the Environmental and Social Impact Assessment of EXIM Bank's Loan Projects (Effective)
2007	Shanghai Stock Exchange (SSE)	Appraisal Measures of Shanghai Stock Exchange Corporate Governance Sector (Effective)
2008	EXIM Bank	EXIM Bank Environmental Protection Policy (Effective)
2010	Shenzhen Stock Exchange (SZE)	Shenzhen Stock Exchange Guidelines for CSR of Listed Companies (Effective)
2012	China Banking Regulatory Commission (CBRC)	Guidelines on Green Credit (Effective)

Source: Author's collection

The EXIM bank issued guidelines to instruct lenders to follow the environmental policies and enforce CSR principles whenever the host country does not comply with relevant regulations. In order to do this, the Chinese government is learning to apply CSR standards from international experiences and guidelines: ‘China's interest in partnership with firms that have more experiences, better technology, or more assets makes these avenues of influence promising, as long as the global expectations for better social and environmental performance remains strong.’ (Brautigam, 2010, p. 304). For example, the EXIM Bank signed a memorandum of understanding with the International Financial Corporation (IFC) in 2007 to improve the understanding and application of China's CSR. Other international banks adopting international principles also urged Chinese banks to adopt measures for green lending. Therefore, Chinese financial institutions with overseas transactions, namely the EXIM Bank and CDB are forced to adopt the Equator Principles (EPs) (see Table 2.3).

Table 2.3 Adoption of the Equator Principles for financial institutions for the top 10 global banks based on market capital in 2016

Rank	Bank Name	Country	Adoption of EPFI
1	Wells Fargo & Co	US	Y
2	Industrial & Commercial Bank of China (ICBC)	China ²³	Y (Since 2015)
3	JP Morgan Chase & Co	US	Y
4	China Construction Bank	China	N
5	Agricultural Bank of China	China	N
6	Bank of China	China	N
7	Bank of America	US	Y
8	HSBC Holdings	UK	Y
9	Citigroup Inc.	US	Y
10	Commonwealth Bank of Australia	Australia	Y

Source: Author's compilation²⁴

2.4. Examples of CSR from advanced countries

The most distinctive feature of CSR in Chinese businesses is the Chinese government's involvement. The incorporation of CSR in Chinese business is widely considered as government-led mandate. Owing to the demand for enhancing corporate competitiveness and international expectations, the government urged Chinese companies to include CSR reporting. At the initial stage of 'Going Out', the White Paper on Energy in 2001 did not disclose or issue directives on implementing the CSR overseas. Instead, CSR was once considered as a foreign-imposed requirement for restricting Chinese exports. As the volume and scale of overseas

²³ China is not a designated country in Equator Principles Association.

²⁴ Equator Principles Association Members and Reporting, <http://www.equator-principles.com/index.php/members-reporting>

investments rose exponentially and the business operations are affecting investor countries, the Chinese government began to pay attention to CSR.

In 2000, the United States initiated the Corporate Code of Conduct to control the environmental and social impact of overseas investment. In 2001 and 2007, France and Sweden issued New Economic Regulations and Guidelines for External Reporting by State-Owned Enterprises. In 2006, despite being a voluntary mechanism, the EPs were established and acknowledged by multinational financial corporations. These companies conducted their own environmental due diligence, consulted directly with local communities, and proceeded with a project only when a robust environmental impact assessment was completed, following the footsteps of the world's leading multinational companies.

The Overseas Private Investment Corporation (OPIC) is the US government's development finance institution. It mobilises private capital to help solve critical development challenges to advance US foreign policy and national security objectives. OPIC recognises that businesses both large and small can play an important role in national development. In recent years, OPIC has supported an average of 80 percent of projects by the small business as one of the priorities. Another key priority is impact investing, which aims to produce positive social impact while generating financial returns sufficient to make these projects

sustainable. Moreover, Congress mandates requirements for OPIC projects on environmental protection, social impact, health, and safety through guidelines and legal procedures. The guidelines and procedures are largely based on environmental and social impact assessment procedures endorsed by the World Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the U.S. Export-Import Bank.²⁵ Projects that are likely to have significant adverse environmental or social impact are disclosed to the public for feedback over a period of 60 days.

Thus, the OPIC institutionalised the overseas investments through bilateral investment agreement by obtaining the rights of subrogation. In this way, American overseas investments that obtain domestic insurance are institutionalized and legalized to ensure the implementation of responsible behaviour by companies at home and abroad.

The prominent characteristics of American overseas investments extend beyond the simple concept of Going Out. For an enduring presence and influence in the host country, the US Congress passed the Africa Growth and Opportunity Act and modified it several times to keep pace with changes. Based on this, the OPIC enacts

²⁵<http://www.kriegdevault.com/userfiles/file/The%20Overseas%20Private%20Investment%20Corporation.pdf>

the Act to spread the key elements of US foreign policy to influence the host government and society. For example, the OPIC provided loans amounting to USD 3 million to American Wool Cashmere Inc. for setting up investments. The investments attached great importance to women's employability. At the same time, the OPIC targeted funds at special industry and region. For example, many American enterprises invested in housing development, water-resources protection, and safer food production upon receiving financing warranty and political-risk insurance (Ji, 2013).

To mitigate negative social and environmental impact, the OPIC has stringent CSR standards for the companies to follow. It adopted the standards of International Finance Corporation, modified its Environmental and Social Policy Statement to protect labour rights, promote environmental protection and green technology, as well as ensure timely information dissemination to the local community. When an American company failed to implement CSR, the OPIC imposed a penalty/punishment mechanism. For example, the OPIC suspended the USD 100 million political-risk insurance when Freeport-McMoRan Copper & Gold was guilty of causing severe environmental and social damage to Grasberg Minerals District in Indonesia in 1996 (Hu, Zhao, Zhou and Leung, 2013). Moreover, the OPIC participated in formulating environmental and social policies to improve the environment of the host country. It initiated several CSR seminars and urged the host

country to join other government agencies such as the White House, Senate, and USTDA to adopt American standards.

Another way of Going Out is to invest in the financial sector of less-developed countries. The preference for SME enterprises of the American domestic business environment calls for the OPIC to establish a stable financial system for its companies. By establishing a modern financial system in the host country, the American government will have a better way of monitoring overseas business activities. By integrating its investments into the financial system of the host country, American companies can look forward to a more steady capital flow. This can also help to expand American influence in the daily life of the local people.

The US government promoted its diplomacy by directing its enterprises to invest in areas where its influence is not met with resistance. The domestic state-business relations that favour SMEs allow the American companies to compete on a fair level. The preference for financial system over extractive sectors in the host country enables American companies to develop and even dominate the financing channels for industry development. The stringent regulations and punishment mechanism over business activities both steer companies to vigilantly follow international sustainable CSR standards.

Table 2.4 Comparing CSR between Western and Chinese companies

	WESTERN CSR	CHINESE CSR
Economic Development Approach	<ol style="list-style-type: none"> 1. Enhancing profit and welfare 2. Working closely with NGOs and local community 3. Improving governance and business working environment 4. Ensuring economic growth and efficiency 5. Assuring economic sustainability Pursuing innovation & new technology	<ol style="list-style-type: none"> 1. Increasing business profits and expand local market 2. Working closely with the government 3. Increasing economic growth in local government revenue 4. Focusing on resource-extractive and labour-intensive projects 5. Improving economic sustainability
Legal Compliance	<ol style="list-style-type: none"> 1. Following rules and regulations closely 2. Apply higher standard 3. Acting responsibly not only to shareholders but also stakeholders 	<ol style="list-style-type: none"> 1. Following local rules and regulations (Occasionally ignore rules) 2. Behaving responsibly toward shareholders (gradually including stakeholders)
Environmental Protection	<ol style="list-style-type: none"> 1. Improving environment & ecological system 2. Protecting bio-diversity 3. Working closely with NGOs and international Organizations 4. Pursuing environmental conservation with technology 	<ol style="list-style-type: none"> 1. Decreasing pollution and enhancing ecological system 2. Increasing awareness of environmental protection and starting work with NGOs
Customer Service	<ol style="list-style-type: none"> 1. Creating high quality products 2. Addressing customer's feedback 3. Observing strict protection on intellectual property rights 	<ol style="list-style-type: none"> 1. Creating affordable products 2. Focusing on consumer demands
Labour Welfare	<ol style="list-style-type: none"> 1. Ensuring labour safety & healthy 2. Supporting the local labour force 3. Improving labour skills and management through training 4. Aiming for equality in career promotion and development 5. Enforcing strict insurance and welfare policy 6. Working closely with the Union and Association 	<ol style="list-style-type: none"> 1. Improving safe production and healthy working condition 2 Improving skills and management; providing training opportunities overseas 3. Ensuring insurance for labour welfare 4. Keeping a minimum wage policy 5. Paying less attention to workers' rights
Aid and Charity	<ol style="list-style-type: none"> 1. Supporting charity programs 2. Actively contributing 3. Showing care to humanitarian cause 4. Supporting art, culture, and sports development 	<ol style="list-style-type: none"> 1. Focusing on donation 2. Donating money with limited transparency 3. Participating in voluntary work

Source: Author's compilation from media and interview

2.5. Conceptual/Methodological Notes

The discussion above establishes the conceptual framework for addressing the research question: Despite China's issue of laws and regulations to regulate its overseas investment, why is China's CSR performance still relatively weak and problematic?

The two hypotheses are proposed to address the question above:

Hypothesis 1: Domestic institutional shortcomings in China produce various institutional spill-over effects that negatively affect the CSR performance in Southeast Asia.

Hypothesis 2: The under-developed CSR regime in the recipient country is vulnerable to the negative effects by Chinese investments.

The dependent variable (DV) of this study is the CSR performance of China's overseas performance. There are noticeable variations in DV in the three cases. These variations can be observed through the following indicators: social reactions, the amount of resources allocated for CSR activities, and the actual assessments done by the host country. I compared the CSR performances of Chinese investments in the three countries by examining the local media reports, interviews with different actors in the host country as well as the appraisal standards from the local governments. Through the comparison, it can be said Chinese CSR in Myanmar is the worst among

the three cases. The very low level of Chinese companies' CSR in Myanmar ultimately led to an overwhelming opposition towards Chinese investments in the country. In comparison, Chinese CSR performance in Vietnam is slightly better, although in general it is also negative. CSR performance of Chinese companies in Indonesia is the best among the three countries, despite the fact that China lagged far behind companies from the developed countries.

There might be other variables explaining the weak performance of CSR of Chinese investments as suggested in the literature review such as Chinese cultural factors. These alternative variables are discussed in the literature section. Those other variables could not explain some of the major issues concerning Chinese companies' CSR. In this sense, the two independent variables that are studied in my dissertation better explain the outcomes.

There are two independent variable (IV): domestic institutional shortcomings from the investing country, which is China (IV One) and the level of CSR regime development of the recipient country (IV Two). There is also a clear variation in each IV.

IV One consists of the underlying three aspects: extent of CSR infrastructure in various sectors, supervision levels, and reporting mechanism levels (IV One has other aspects but the three aspects listed here are the most important ones).

Within the institutional setting in China, the CSR infrastructure varies in different sectors. In the three cases, the national oil companies respond more effectively to the calling for CSR implementation than other companies due to close state-business relations. The national construction companies can be considered as one of the most liberalized yet least regulated and worst CSR sectors in Chinese economy. To the contrary, the CSR implementation of Chinese hydropower companies such as CSR reporting and CSR assessment became a prerequisite by the governmental policies. The Chinese government also institutionalized public participation and displacement into the legal system in hydropower sector.

IV Two evaluates the levels of CSR regime establishment in the host country. The three aspects of evaluation are: the political and legal framework for CSR establishment, the level of civil society's activity, and the interaction between the CSR regime and the civil society. There are obvious variations in the IV Two.

In Indonesia, the political and framework for CSR is established through several laws in 2007 and 2012 that require socially responsible practice of the corporations. The

freedom of the civil society liberalized from Indonesia's democratization has also contributed to the CSR adoption. However, civil society in Indonesia has difficulty in developing effective partnership with the official CSR regime. Similarly, Vietnamese government has accepted the concept of CSR mainly through the influence of various business associations and NGOs, without legalizing the CSR though. Therefore, the CSR regime in Vietnam is not well developed. Local NGOs in Vietnam form an important part in contributing to the CSR adoption, under the partnership with international organizations. However, NGOs in Vietnam are subject to the rule of the government. Thus, they play limited although important role in interacting with of the Vietnamese CSR regime, which is still at its initiative stage of development. To the contrast, Myanmar lacks of CSR institutional framework and even awareness of CSR due to long time of isolation and sanctions imposed by the West. There was neither participation of the civil society nor supervision from an independent body to ensure the social accountability of foreign investments.

Because PetroChina responds more actively to CSR requirements due to state-business relations, the relatively better CSR development in Indonesia is witnessed and PetroChina improved CSR implementation in Jambi and Jabung district, with shortcomings though. However, the weakly regulated construction sector in China led the Sixth Group seek for the loopholes of non-compliance in Vietnam that has rising awareness of CSR but weak governance. Myanmar's lacks of CSR awareness and

institutions during the military regime resulted in very little respect for CSR by Chinese investor in the case of the Myitsone Dam.

Figure 2.1 maps out the causal relationship between different variables.

Figure 2.1 Conceptual Model of the CSR Performance of Chinese ODI

2.6. Methodology

The methods of research include case study, process-tracing, as well as data and information analysis; interviews and data collection serve as the primary means of understanding China's CSR. This study uses archival material from China and the host country governments, official statements from both sides, and interviews with scholars, officials and local people in universities, think tanks, governments, communities and NGOs mainly in Indonesia, Myanmar, Vietnam. There are also informal interviews with experts from China (Beijing, Guangzhou, Xiamen and Yunnan), Japan (Osaka and Tokyo) and Singapore. The interviews enable the author to uncover relevant information, and assess the views of all informants. The study also analyses the investment policy environment, as well as the regulatory and

institutional frameworks of the invested countries. Field trip studies are conducted in China, Myanmar, Vietnam, and Indonesia.

The interviews for the thesis were conducted from November 2015 to December 2016. 43 individual interviews and three focus groups (involving a total of 23 participants) were conducted. Given the anonymous nature of the interview, details such as names are not disclosed. Three focus groups were held in Jakarta, Hanoi and Yangon. Participants with diverse profiles and backgrounds were invited to attend to ensure that a broad range of views were represented. Participating individuals included professionals from Chinese universities, local government officials, and representatives from professional organisations, academics, media and NGOs who are engaged in Chinese CSR- related work. The participants were chosen through networks and their own voluntary input into this thesis. Through the interviews, this thesis could make the empirical observation that CSR performance of Chinese companies in Myanmar (before the political transition) are among the worst while the CSR performance in Indonesia is relatively better and Vietnam is in the middle.

2.7. Analytical Framework: Explaining Variables

2.7.1. Domestic Institutional Shortcoming

Understanding how China's domestic political economy functions is 'essential to making sense of how its companies perform overseas' (Economy and Levi, 2014). Chinese companies are primarily motivated by the domestic requirements from the

government rather than the expectations of local communities or stakeholders (Report, 2015). In China, the role of the state is of particular importance to companies for two reasons: (1) the high degree of state intervention in the economy, and (2) the lack of independent agency to oversee state intervention. The direct consequence of such intervention is that the state controls vast amounts of resources, both financial and regulatory, that are vital to a firm's prosperity or even survival.

➤ Inadequate CSR infrastructure

The national support for SOEs has created an unfavourable CSR environment for private SMEs. The Party elevated the status of SOEs through preferential policies and financial support. Because of the reform, private companies lost the competitive advantage and lost access to overseas financing and cross-border payment mechanisms.²⁶ In order to secure project financing from domestic banks, they have to conduct costly assessments of investment risks and returns. Therefore, quite a number of Chinese companies display a lower CSR standard where host countries do not have the rule of law. Moreover, even though they may be willing, they often lack the capacity to complete CSR requirements. Private companies need to survive and are

²⁶ Chinese banks generally require Sinosure (China Export and Credit Insurance Corporation) to issue insurance for overseas investments as a condition for their funding of projects. The higher insurance rates charged by Sinosure place Chinese private firms at a greater disadvantage than their Japanese and Korean counterparts. Furthermore, Sinosure also prefers to insure firms which have a sovereign guarantee. A sovereign guarantee allows Chinese projects operating in difficult jurisdictions to enjoy sovereign support in the event of crisis or war. Therefore, SOEs with strong sovereign support usually obtain approval easily.

compelled to place more emphasis on generating cash flow than on ensuring the quality of earnings (Economy & Levi, 2014). This results in private companies working with short-term plans and inferior risk management. Haste in generating cash flow can lead to an inadequate understanding of the investment environment, culture, and customs of the host countries, and even violation of laws. In Northern Myanmar, for example, some Chinese companies tend to invest in mining and logging in conflict-prone areas controlled by the ethnic groups. Private companies even bribed host countries because they did not complete registration procedures and had to keep their operations outside of China.

The well-protected domestic environment of SOEs leads to a business foreignness syndrome against the international norms of CSR. China's institutional setup blurs the boundary between the market and government control, and this indicates that the state is able to exercise significant influence over companies (irrespective of the nature of the company). The Western countries have a more liberal market institutional environment, which enables its companies to extend their organisational and human resource systems across borders, thereby enhancing their competitiveness. The companies are more decentralised and the overseas subsidiaries are better coordinated via financial performance measures. This allows the subsidiaries a great degree of autonomy in management and local adaptation (Lam, 2007). Although the Chinese state introduced various measures (increasing profits and improving

corporate performance) to improve corporate governance, the state continues to maintain political influence over resource allocation to SOEs in order to safeguard national interests. Therefore, SOEs' highly centralised and closed style of running business results in a lack of innovation, and this hinders overseas business operations.

Chinese unique state-business relations dominate the CSR approach. It is elitist and government-dependent. Therefore, Chinese companies do not have experience in dealing with the civil society and this hurts their CSR performance overseas. Unlike developed economies where civil society often monitors companies' behaviour (playing the role of watchdog and advocator), the overall China's CSR public awareness is still at infancy stage. Interactions between civil society and the companies within China are limited to corporate philanthropy. The companies also rely on the government to promote education, health care, and environmental protection. Therefore, when it comes to dealing with local civil society in the investor country, Chinese companies tend to incorporate their domestic experience into foreign practice. China also relies on its envoys to focus on elites in the host country. By doing so, China hopes to forge extensive contacts in the local businesses and political elites, paving the way for the Chinese investments to flow into the target countries.

There is no supervisory body to penalise irresponsible economic decisions made between the host country and China. In modern business, it is common for shareholders and stakeholders to hold the CEO responsible for the performance of a listed company. However, the same level of accountability does not necessarily apply to the CEO of a Chinese SOE. Handpicked by the Party, the Chinese CEO is subject to less scrutiny and remains in the position with fewer requirements for accountability. The Chinese appointment mechanism creates loopholes for SOE managers to shirk responsibility in an attempt to safeguard their political promotion. Under such a system, it gets increasingly difficult to prod SOE officials to focus on developing skillsets crucial for the development of the organisation. It also limits the capacity of the state to deal with the legal and financial aspects of overseas investment.

Although most of the Chinese banks within China adhere to CSR and green credit, strict implementation is still relatively new. Mandates for business returns remain top priority in China's banks, especially state banks. EXIM bank's adoption of World Bank regulations is regarded as a step beyond any other national bank in the world. This reflects a commitment to conduct an Environment Impact Assessment (EIA) for the completion of all projects. It is even considered by some to exceed Western green finance models.

According to Katharine Lu from the Friends of the EARTH-USA:

It would be fair to say that China is the only country we've seen that has issued a banking regulation to govern its environmental and social impacts for overseas investments, and deserves some credit for going above and beyond that sense (Hill, 2014).

Moreover, Chinese companies do not fully understand state policies on overseas CSR investment. First, this originates from the different logics and often different interests driving the central government, the provinces, and the business community, with each having different stakes in overseas investments. This is compounded by inadequate forms of coordination across various governmental and corporate agencies (Gu, Zhang, Vaz, and Mukwereza, 2016).

Second, China lacks the legal infrastructure for civil participation even though it has incorporated and improved CSR relevant laws, policies, regulations and statements. The state-business relations in China exclude grassroots participation. For example, there are policies that protect the public to defend their rights. However, China's legal system does not provide channels for exercising these rights. With limited domestic experience, China's CSR investment has a long way to go in advancing human rights of the host country. Some of the most pressing questions are: Is China capable of

improving its overseas labour practices? Will China's practice abide by the International Labour Organisation, codes of conduct or local law and regulation ?

Third, there is little evidence of a grand strategy for China's companies in applying it amid the Chinese government's attempts to improve the CSR (Taylor, 2009). This is largely due to competing interests at the top level and the lack of consensus on the implementation of sustainability policies. As late comers, Chinese companies tend to invest in conflict-prone countries that lack transparency. As a result, they need to cope with international expectations and standards. Progress is evident as China emphasised the need to act responsibly, promote sustainable development, and also establish good relations with local communities. However, the Chinese government and companies have different opinions regarding incorporating human rights into CSR.²⁷ So far, China has not prepared any guidelines on the human rights obligations of its overseas investors. Neither the Chinese nor the OECD Guidelines are binding on the protection of human rights. OECD norms, however, allow civil society groups and others to file complaints with national authorities on violations, with the aim of initiating mediation processes between the companies and the plaintiffs. Without such mechanism for civil society to influence the companies' CSR behaviour, China

²⁷ In 2011, the UN Human Rights Council confirmed this responsibility in its Guiding Principles for Business and Human Rights. According to the United Nations, state-owned enterprises (including those in China) have a particular responsibility for upholding human rights, for example through 'meaningful consultation' with affected communities.

sometimes responds to criticism with strong sentiment. China is also unwilling to consult Western NGOs when making investment decisions.

➤ Overlapping supervision layers but fragmented coordination

Although the central government has embraced the idea of CSR and regulated the overseas business activities, the legacy of the China's fragmented institutional structure and incomplete political reforms continue to hinder the effective implementation and supervision of its ODI performance. In China, the State Council supervises every administrative organ at various ministerial levels (see Figure 2.2). The MOFCOM regulates foreign trade, approves, and monitors SOEs in overseas activities, and directs foreign aid. The National Development and Reform Commission (NDRC) is the central planning agent for China's economic development and it drafts industrial policies, issues regulations and prescribes standards for Chinese SOEs. The NDRC assesses overseas SOEs' activities to advance China's national interests. The State-Owned Asset Supervision and Administration Commission (SASAC) oversees SOEs' activities. It has the authority to approve and remove personnel, approve mergers and acquisitions, and drafts laws and regulations (Naughton, 2008). The Ministry of Finance (MOF) monitors government-related investments funding by offering capital to state banks to support SOEs. Under China's present bureaucratic system, before a Chinese company makes any overseas investment, it has to seek clearance with three different governmental

authorities in the following sequence: (1) permission of NDRC, (2) approval of the commercial contract by MOFCOM, and (3) foreign exchange clearance with the SAFE, and (4) meet requirements set by the EXIM Bank or China Development Bank (CDB) if aid packages are involved.

Figure 2.2 China's regulatory entities for SOEs

Source: Author's analysis

China's bureaucratic ranking impedes effective coordination among governmental bodies. The ministries, certain SOEs, and provincial government are all at the same level of bureaucracy. The China International Contractors' Association, a body with close links to the MOFCOM, has regulatory powers in theory; however, it is powerless to act on its regulatory power. In China's political hierarchy, it is a bureau-level organisation, lower than some SOEs. Its members such as the Three Gorges Group are placed at the vice-ministerial level. Within the government bureaucracy, such rankings matter so the Association plays a minor role.

Chinese embassies in host countries do not have any supervisory role over business activities overseas. One direct consequence is that the country's network of overseas representations is often not utilised to its capacity for the advancement of national interests. China has set up Economic & Commercial Counsellor's Offices (subordinate to MOFCOM) to supervise China's overseas business that are located in Chinese Embassies (MFA) in various countries. There is no supervisory body that coordinates the functions across state agencies, financial institutions, MFA, and host countries. So when there is controversy in the host country, the ECO only reports to MOFCOM, bypassing MFA.

Among all the government agencies, the roles of MOFCOM and NDRC are prone to conflicts. These two agencies work with other relevant agencies to supervise the business activities overseas, and have the authority of approving overseas investments, such as foreign exchange rate, tax, among others. However, there is no channel for coordinating and stipulating responsibilities between the two governmental bodies. On the one hand, overlapping layers of regulatory jurisdiction increase the time needed for the companies to obtain approval from different agencies. On the other hand, the fragmented but layered institutional environment also raises administrative costs and rent-seeking opportunities.

A common feature of many of these regulations is overlapping. The regulatory overlapping jurisdiction embedded in the domestic bureaucracy structure hinders consistent supervision over various aspects of overseas business activities. On top of the ministerial-level agencies, the subsidiaries of these ministries at provincial and city levels further complicate China's regulation of overseas activities.

The inadequate regulatory environment can be blamed for 'murky water' conditions in which Chinese overseas businesses operate. The punishment mechanism is absent. For example, the Green Credit Directive requires Chinese banks to ensure that borrowers abide by international norms in overseas loans. However, the China Banking Regulatory Commission, China's bank regulator, does not have the authority to punish those who defy regulations. According to the former government environmental economist Hu Tao, the biggest challenge of the Guidelines is that it is voluntary rather than mandatory. The companies feel morally obliged but do not face any punishment when they do not follow the Guidelines (Leung, 2013).

In China, the activity on the ground fails to abide by the rules laid down on paper. Although Chinese financial institutions issued many advanced regulations, its capacity for implementation and supervision is very weak. By and large, the government's proposed CSR guidelines for outbound investors are not legally binding.

➤ Reporting mechanism

After SASAC mandated that all SOEs under their management set up a CSR mechanism within their governance structure in 2009, the quantity of CSR reports published by Chinese companies improved substantially.²⁸ The Chinese government is a strong supporter of the involvement of Chinese companies, mainly SOEs, in advancing CSR to drive harmonious integration into the broader global market. On the one hand, the Chinese companies are encouraged to apply different international reference standards such as the Global Reporting Initiative (GRI) to narrow the gap between itself and the developed countries. On the other hand, the Chinese state prefers to create its own CSR definition and guidelines that address its unique economic situation and business culture (Shin, 2014, p. 79). Therefore, in 2010, the Chinese Academy of Social Sciences (CASS), an academic research organisation under the State Council, published the Chinese CSR Report Rating Standards as reporting evaluation criteria.

The CASS role in rating CSR performance of Chinese companies' (SOEs in particular) lacks judicial neutrality and independence. In comparison, Western companies would increase the credibility of CSR reporting by third-party verification or external audit including verification of the company's annual report (Castka, Bamber, and Sharp, 2005). In China, it is reported that 92.4 per cent of the CSR

²⁸ The State Grid Corporation of China issued the first-ever CSR report in 2006.

reports issued in 2013 were not audited by any external party (China WTO Tribune, 2015).

Given the domestic institutional embeddedness, the majority of Chinese companies lack a proactive attitude toward CSR disclosure. Owing to a lack of CSR strategic planning and systematic management, based on an analysis of CSR reports in China, it is reported that most CSR practices are randomly carried out (without planning, without an objective in mind, and in an unsystematic manner). Consequently, random acts dominate CSR reports so the value of social responsibility is low. This reflects the prevailing condition that corporations do neither prior planning nor ex-post publicity. Consequently, performance level and corporate branding are far from impressive.

Reporting environmental information is an essential component of information disclosure for the banking sector. However, among all these policies and guidelines, there is no government authority to assess the extent and accountability of the information provided by the banks. In contrast, Western companies which commit malpractice in their overseas operations are subject to greater scrutiny and face hefty penalties and jail time.

Yet while some Chinese companies receive international recognition for enhanced CSR reporting, it is not clear whether the trend has translated broadly into more socially and environmentally sound policies. Some scholars explain this as decoupling response which means firms often respond to stakeholders' demand by publicising actions that did not take place (Meyer and Rowan, 1977; Westphal and Zajac, 2001). It can be applied to explain weak CSR performance, especially when the stakeholders of the SOEs are the state that usually does not scrutinize the implementation of the CSR. In this regard, the report rating is considered as a promotion tool of business image rather than an objective assessment of the CSR disclosure (Noronha, Tou, Cynthia, and Guan, 2013). In fact, Chinese companies are using CSR reporting as a marketing tool.

2.7.2. Development Level of an Effective CSR Regime in Southeast Asia

Certain forms of CSR practiced in Southeast Asia throughout the years have distinctive cultural and religious features. For example, in Indonesia and Malaysia, the emergence of CSR is seen as the resurgence of 'gotong royong' (joint responsibility) that has driven groups to perform welfare of the community. Amid the socio-cultural diversity of Southeast Asia, the discourse encompassing culture, traditional values, and politics provides the socio-economic context for CSR building. Some governments such as Singapore and Malaysia have taken the lead to draw up

comprehensive guiding principles for promoting CSR adoption on several fronts, alongside industry and NGOs.

One of the challenges of the region is the weak enforcement of industrial regulatory framework is plagued with corruption and hence weaken the compliance record by industry. Independent CSR monitoring and benchmarking is still relatively weak in Southeast Asia, though some companies may have internal metrics to measure CSR effectiveness (Sharma, 2013, pp. 19-23).

Most of the Southeast Asian states lack of technical capacity for CSR building. Some governments have limited capacity in building a transparent regulatory environment with well-defined laws and regulations; others have difficulty in conducting government coordination and policy implementation. The presence of strong authoritarian states in Southeast Asia plays the dominant role in facilitating and developing CSR. On the legislative front, the Indonesian government was the first country to legislate CSR. According to its 2007 revised Company Law, natural resources-based firms must allocate budgets for CSR programmes. However, Indonesia has not followed through with implementing guidelines, rendering the law unenforceable. (Sharma, 2013). Malaysia, the Philippines, and Thailand are in the process of establishing CSR legislation. Countries (such as Myanmar) which just opened up their economies are still at the infancy stage of CSR development.

Countries (such as Vietnam) with highly-centralised governmental system have introduced CSR-related laws but have little implementation success.

The second challenge is the resource constraints in responding to CSR regulations. Examples include financial pressures, funding, manpower, expertise, and internal political will. For Southeast Asian countries, especially the developing ones, economic development is the first strategy to reduce the hunger, poverty, unemployment, and malnutrition issues. Implementation of CSR is often perceived as a cost in the business (Rosario, 2011). Even though some companies are willing to embrace CSR, their attempts to implement CSR are hindered by practical challenges of limited resources needed for actual implementation.

The role of civil society in Southeast Asia is weak given the presence of strong authoritarian states plays a dominant role in political economy, although some civil society appears vibrant in challenging the state. Some countries view CSR as Western values and ideas as hostile to local culture and religion. It is especially so when the NGOs are supported or influenced by the international organisations such as Asian Development Bank and Western multinational companies which have a strong foothold in Southeast Asia. Active NGO involvement positively influences the CSR practice in these countries. Businesses are under pressure to step in to meet the governance and resource deficit faced by state parties and weak public institutions.

In summary, this section analyses the two determining factors of China's CSR performance: China's domestic institutional shortcoming and levels of effective CSR regime in Southeast Asia. The two factors will vary in the case studies of China's investments in Indonesia, Myanmar, and Vietnam in the next chapters.

3. Chapter Three - PetroChina in Indonesia

3.1. Introduction

The rising influence of China has brought changes to the political economy at the international and regional level. During the Cold War era, China was considered as a threat to international security, particularly among Southeast Asian countries. Like other Southeast Asian countries, Indonesia was wary of China's ideological export to its Southern neighbours. Although China was the first communist country that Indonesia had established diplomatic relations with since its independence in December 1949, the bilateral relationship experienced the most hostile and turbulent period until the early 1990s. On the one hand, the Indonesian communist party (Partai Komunis Indonesia/PKI) that challenged the Indonesian government was alleged to be supported by China.²⁹ On the other hand, the Indonesian government also doubted the loyalty of the ethnic Chinese community.³⁰ China's relations with Southeast Asia began to improve after the end of the Cultural Revolution and the introduction of the Opening Up policy. Under the leadership of Deng Xiaoping, China began to concentrate on economic reforms of Opening Up. Despite China's transition from focusing on revolutionary foreign policy to economic development, Indonesia remained cautious of China's domestic political calculations (Sukma, 2009: 142).

²⁹ China was accused of interfering in Indonesia's domestic affairs by supporting the PKI leaders.

³⁰ Rizal Sukma created the term 'triangle threat' to refer to communist threat of insurgency to the Indonesian national security via China, the PKI, and the ethnic Chinese. See Rizal Sukma's *Indonesia and China: The Politics of Troubled Relationship*, Routledge, 1999.

At the end of the Cold War, economic interests led to the normalisation of the bilateral relationship in the early 1990s. The post-Suharto government would no longer be dependent on anti-communism to stabilise its regime. The gradual elimination of discrimination against Indonesian Chinese removed a contentious issue in bilateral relationship as well. Looking to the future, both countries worked towards strengthening economic complementarities and broadening economic ties. In contrast to other ASEAN members that actively deepened their relations with China, Sino-Indonesian relations were treated with caution. Indonesia preferred to engage with China through ASEAN. ASEAN 'has been regarded in Jakarta as likely to be a more effective instrument for managing relations with a China regarded with apprehension and some foreboding' (Leifer, 1999, pp. 98-99).

After the anti-Chinese riots broke out in Indonesia in 1998, the bilateral relationship was seen to enter a new period of engagement and cooperation. It can be understood from two aspects. Different from the strong reaction against previous anti-Chinese sentiment, China did not react emotionally in the 1998 anti-Chinese riots. In the context of regional implication of the rise of China, China acted responsibly by refraining from depreciating its currency during the 1997 Asian Financial Crisis. In addition, China also provided USD 500 million to the IMF's bailout package and USD 200 million in export credits to heavily-affected countries, in contrast to hesitant assistance from the West (Laksmana, 2011). China's financial contribution to

Indonesia and other Southeast Asian countries to help manage the financial crisis was well-received.

The end of Suharto's regime and the advent of a newly-democratised Indonesia witnessed a different and more practical approach towards China. This approach brought significant improvement to relations between the two countries. The barriers to further diplomatic relations expansion were removed when Indonesia changed its domestic politics: addressing the discrimination against ethnic Chinese and opening of political opportunity in Indonesia (Sukma, 2009, pp. 148-149). China's active and speedy reaction to the 2004 Tsunami further enhanced the bilateral relationship. China provided disaster relief for victims and announced the initial emergency aid of USD 3 billion, and later USD 60 million in aid of the affected countries, particularly Indonesia.³¹ Along with foreign aid, China also sent humanitarian teams to epidemic areas to save lives and restore infrastructure.

The year of 2002 witnessed further economic cooperation when Chinese national oil companies began to invest in Indonesia. Although Indonesia had a fast track of president replacement, the economic relations between China and Indonesia remained

³¹ By 25 January 2005, China has contributed over RMB 1 billion to Indonesia. The Chinese government also encouraged business groups, NGOs, and other social groups to donate to the tsunami-stricken countries. *Waijiaobu Fayaren: Zhongguo Xiang Shouzaiguo Juankuan Yi Tupo 10 Yi*, (Spokesman from MFA: China has donated over RMB 1 billion to the tsunami-stricken countries), Xinhua Agency, 25 January 2005, http://news.xinhuanet.com/world/2005-01/25/content_2506789.htm

strong. Cooperation between the two countries expanded to other areas beyond trade and investment. In 2005, a 'strategic partnership' (strategic and military cooperation)³² was signed between the then President Susilo Yudhoyono with China. During Yudhoyono's presidency, the China factor figured prominently in Indonesia's foreign relations while suspicions lingered within Indonesian politics.

Since Indonesian president Joko Widodo took office, the new government launched 43 infrastructure projects in 2015 with a total investment of USD 52 billion.³³ Indonesia responded actively towards China's several economic initiatives, such as the One Belt, One Road (OBOR) Initiative, Asian Infrastructure Investment Bank, and 21st Century Maritime Silk Road. In October 2015, the Chinese president Xi Jinping visited the Indonesian ambassador and proposed the establishment of a 21st Century Maritime Silk Road, which highly matches Indonesia's interconnection strategy. With China's OBOR Initiative and Indonesia's 'Interconnection' strategies, active cooperation between both countries is signalling concrete outcomes.

³² According to Storey, China uses 'strategic partnership' to describe its relations with major powers such as United States and Russia. Indonesia was the first country in ASEAN where China built its strategic partnership. See Storey, I. *Southeast Asia and the Rise of China: The Search For Security*, Routledge, 2011.

³³ http://www.indonesia-investments.com/zh_cn/news/trade-expos-exhibitions/2016-indonesia-infrastructure-one-belt-one-road-investment-conference/item7108, accessed 17 September 2016.

With enormous capital and the advantages of being an authoritarian state, China has wielded its chequebook diplomacy to woo its Southeast Asian neighbours. However, the implications of China's investments alerted target countries to national security, governance, and environmental issues. So far, there is no systemic study on China's CSR performance in Indonesia. Despite the scarcity of reliable data and the reclusive nature of Chinese business, this chapter aims to provide a deep investigation of the reasons for China's CSR behaviour. Section 2 evaluates bilateral economic relations between China and Indonesia. Thereafter, Section 3 provides the Chinese CSR context of the oil industry and case studies of PetroChina as well as an evaluation of Chinese CSR performance based on a study of the independent variables discussed in Section 4. Section 5 concludes this chapter with a reaffirmation that both the investor and the recipient countries' capacity of enforcement would be required to ensure good practices in labour, environment, and safety.

3.2. Economic Relations between China and Indonesia from Twentieth Century

Indonesia has strategic importance in China's economic diplomacy. Indonesia boasts abundant resources such as oil, agro-products like palm oil and rubber, and large mineral resources. Its strategic location between the Indian Ocean and Pacific Ocean is crucial to China's commercial navigation. Indonesia also has the largest population in Southeast Asia with a growing middle class. China is believed to benefit from the burgeoning middle class of Indonesia. However, the infrastructure of Indonesia is

seriously lagging behind and hindering its further economic development. The lack of government funding and decentralisation of authority³⁴ have become the major obstacles to the development of infrastructure such as power plants, transportation, and irrigation system. With its massive financial support and expertise in infrastructure development as well as energy investment, China has been actively filling the gaps in Indonesia.

Indonesia and China signed the Strengthening Comprehensive Strategic Partnership agreement in 2015 with the aim to upgrade Sino-Indonesia relations.³⁵ Leaders from both sides have cooperated since 2015 via various mechanisms such as the High Economic Dialogue. The outcome is based on the burgeoning economic relations dating back to the early 2000s (see Figure 3.1). The bilateral trade has witnessed dramatic increase from approximately USD 13,472 million to USD 54,229 million between 2004 and 2015. Other than bilateral trade, the ASEAN-China Free Trade Agreement enacted in 2010 has provided conditions for growing bilateral trade relations. China has been running a trade surplus with Indonesia since 2007. The exports from Indonesia to China are dominated by commodity products such as oil and metals, while imports from China are mainly manufactured products such as power-generation machinery and telecommunications equipment. Chinese exports to

³⁴ Decentralisation between the central government and local government in Indonesia impeded foreign investments because of uncertainty of regulations, especially in the issue of land.

³⁵ http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1249201.shtml

Indonesia in manufactured products are associated with Chinese investments made in Indonesia (Booth, 2011).

Figure 3.1 China's trade with Indonesia in USD million

Source: CEIC database³⁶

In tandem with the growing trade, Chinese investment flows to Indonesia are also increasing. From 2003 to 2015, the volume of China's investment has increased nearly 58 times (see Figure 3.2). However, despite China's rising investment volume, only around 7 percent of Chinese investments were realised between 2005 and 2014.³⁷ The low realisation rate is due to Indonesia's tough investment environment. For example, Indonesia has a strict private property system, which poses great

³⁶ Accessed 12 April 2016.

³⁷ However, the realisation rate increased twofold in 2015 at the rate of 14% and the first quarter of 2016 witnessed fourfold increase of investment realisation.

http://www.chinadaily.com.cn/interface/yidian/1120781/2016-05-14/cd_25270780.html

difficulty for the central government to implement land acquisition. Foreign investors such as Chinese enterprises have to overcome the barrier of bureaucracy to deal directly with different stakeholders.

Figure 3.2 China's investment in Indonesia from 2003 to 2015 in million USD

Source: CEIC database³⁸

Table 3.1 shows the realisation of aggregate foreign direct investment from Asian investors to Indonesia between 2003 and 2015. China lags behind traditional foreign investors of Indonesia such as the United Kingdom, the United States, the Netherlands, and Japan. China even under-performed compared with small economies such as Thailand and Malaysia (see Table 3.1). Geographical proximity contributed to the overwhelming investment from Southeast countries such as Singapore, Thailand, Malaysia, and Indonesia. With the introduction of ASEAN

³⁸ Accessed 12 May 2016.

Economic Community (AEC), economic cooperation grew while trade and investment flows increased among these countries. According to the Indonesia Investment Coordinating Board (BKPM), these ASEAN countries primarily target at the Indonesian market's communication sector, banking industry, and rubber and palm oil plantation.³⁹

³⁹ <http://finansial.bisnis.com/read/20160429/9/543166/bkpm-investasi-malaysia-di-indonesia-terbesar-kedua>

Table 3.1 List of top 15 foreign investment to Indonesia from 2000 to 2015 in million USD

Country of Origin	Number of Projects	Investment Value (USD Million)
United Kingdom	1337	181,265
Singapore	8624	47,374
Mauritius	285	31,377
Japan	6184	24,341
The Netherlands	1411	16,777
Republic of Korea	6435	14,146
United States of America	1259	10,828
Thailand	269	10,157
Malaysia	2950	8,853
British Virgin Islands	1608	6,807
Hong Kong, China	1268	4,342
Australia	1530	2,858
China	2526	2,473
Taiwan	1132	2,243
Seychelles	133	1,482

Source: National Single Windows Indonesia – Indonesia Investment Coordinating Board⁴⁰

⁴⁰http://nswi.bkpm.go.id/wps/portal/biumum/!ut/p/c5/04_SB8K8xLLM9MSSzPy8xBz9CP0os3hDAwNPJydDRwN3U1MTA0f_EGOvYDcXYwMDQ_1wkA6zeAMcwNFA388jPzdVvyA7rxwAkmxVPg!/dl3/d3/L2dJQSEvUUt3QS9ZQnZ3LzZfMTAwSUJCMUEwRzU1NDBBT1QzSINGRDMwMDE!/

Developed Asian countries such as Japan and South Korea focused on more outbound investment in Indonesia and other emerging markets. Their investment is largely concentrated in certain industrial sectors such as semiconductor manufacturing, automotive assembly, and heavy mechanical industry.

Figure 3.3 China's investment sectors in Indonesia from 2005 to 2016 in million USD

Source: China Global Investment Tracker, American Enterprises Institute⁴¹

According to BKPM, Chinese investment in Indonesia is mainly concentrated in energy, infrastructure, metals, machinery, medicine, and electronics. Specifically, China's investment was primarily in the natural resource sectors (see Figure 3.3). Take energy for example, Chinese oil companies are considered active in its overseas investment in Indonesia. PetroChina acquired six oil fields in Indonesia in 2002. It

⁴¹ <https://www.aei.org/china-global-investment-tracker/>, accessed 20 May 2016.

has operation rights in Jambi, Papua, and East Java. Sinopec, China National Offshore Oil Corporation (CNOOC) and other Chinese national oil companies have also increased their presence in Indonesia. From 2002, CNOOC began to take over oil fields and simultaneously invested USD 8.5 billion in the liquefied natural gas project in Tangguh in West Papua.

Despite China's growing presence in Indonesia's investments, China lags behind other major investors in creating employment opportunities. Chinese investment created 89,233 local jobs between 2000 and 2015, nearly 14 times lower than Singapore's figures (see Figure 3.4). This is because China is believed to bring its own labourers to the host country.

Figure 3.4 Largest numbers of local employment by country (person)

Source : National Single Windows Indonesia – Indonesia Investment Coordinating Board⁴²

Other than relatively low contribution to the local employment rate, Chinese investments have witnessed a lack of advanced CSR performance or low levels of positive impact in local sustainable development. Table 3.2 shows a list of major local complaints against Chinese CSR performance (mainly in resource extractive sectors). Some of them were even sued for not following standard operation procedures. Local resistance towards Chinese investment projects in Indonesia could be seen in PetroChina's conflict with the local people. The conflict took place when

⁴² National Single Window for Investment,
[http://nswi.bkpm.go.id/wps/portal/biumum/!ut/p/c5/04_SB8K8xLLM9MSSzPy8xBz9CP0os3hDAwNPJydDRwN3U1MTA0f_EGOvYDcXYwMDQ_1wkA6zeAMcwNFA388jPzdVvyA7rxwAkmxVPg!!/dl3/d3/L2dJQSEvUUt3QS9ZQnZ3LzZfMTAwSUJCMUEwRzU1NDBBT1QzSINGRDMwMDE!/,](http://nswi.bkpm.go.id/wps/portal/biumum/!ut/p/c5/04_SB8K8xLLM9MSSzPy8xBz9CP0os3hDAwNPJydDRwN3U1MTA0f_EGOvYDcXYwMDQ_1wkA6zeAMcwNFA388jPzdVvyA7rxwAkmxVPg!!/dl3/d3/L2dJQSEvUUt3QS9ZQnZ3LzZfMTAwSUJCMUEwRzU1NDBBT1QzSINGRDMwMDE!/)
 accessed 28 October 2016.

PetroChina violated oil exploration regulations including not seeking legal permission from the local government before exploiting oil in Jambi. Other than the legal permission issue, problems such as land disputes in East Java, environmental pollution in Rahayu village in Bojongoro, inefficient distribution of CSR fund as well as corruption scandal contributed to the weak record of Chinese CSR performance (see Table 3.2).

Table 3.2 The assessment of CSR performance by Chinese companies

PARAMETERS	CASE STUDIES	CSR PERFORMANCE	
		2000-2011	2012-2015
Reduce Pollution	JOB Pertamina – PetroChina East Java	Time: 2011 Programme: Reducing air pollution by processing sulfur in H ₂ S to produce sulfur powder and alternative fuel for the machines. ⁴³	No further information
Adopting clean technology Adopt an environmental protection accountability system	PetroChina International Jabung Ltd.	Time: 2008 Programme: Distribution of 80 units of biogas digester to farmers ⁴⁴	No further information
		Time: 2009 Programme: Development of biogas projects in several regencies/cities in Jambi, 57 units have been operated. ⁴⁵	No further information
	JOB Pertamina – PetroChina East Java	Time: 2011 Place: Bojonegoro, East Java Province Programme: Reducing water pollution by using water separator equipped with an Oil Discharge Monitoring (ODM) that will automatically channel the water to Floating Storage Offshore	No further information

⁴³ A.A.S. Ratih Maheswari, 'Pertanggungjawaban Joint Operating Body Pertamina-PetroChina East Java terhadap Pengendalian Dampak Eksplorasi dan Eksploitasi di Kabupaten Tuban-Jatim', *Thesis* (Yogyakarta: Universitas Atma Jaya, 2011), <http://e-journal.uajy.ac.id/2502/4/3HK08731.pdf>, p. 43.

⁴⁴ Anonym, 'Petrochina Bantu Pemanfaatan Biogas Peternak Tanjung Jabung', *AntaraNews*, www.antaranews.com, accessed 19 October 2016.

⁴⁵ Anonym, 'Peternak Mulai Manfaatkan Kotoran Ternak Jadi Biogas', *Pelita*, www.pelita.or.id, accessed 20 October 2016.

	(FSO) until it meets the standard for clean water. Reducing soil pollution by doing bioremediation ⁴⁶	
CNOOC SES Ltd. and SKK Migas	No further information	Time: 2015 Place: Kepulauan Seribu, Jakarta Programme: Reverse Osmosis in Seribu Island. Distribution of 78 tons of distilled water to people in Kelapa Island, Kongsu Island, and Harapan Island. ⁴⁷
JOB Pertamina – PetroChina East Java (JOB P- PEJ)	No further information	Time: 2016 Place: Campurejo Village, Bojonegoro Programme: Food stockholding, energy, and golden generation programme: -Garbage Bank -Reutealis trisperma cultivation as renewable energy resource
PetroChina Jabung Ltd.	Time: 2003 Programme: PetroChina received location permission in North Geragai-28 based on SK Bupati Tanjung Jabung Timur No. 328 Year	

⁴⁶ A.A.S. Ratih Maheswari, 'Pertanggungjawaban Joint Operating Body Pertamina-PetroChina East Java terhadap Pengendalian Dampak Eksplorasi dan Eksploitasi di Kabupaten Tuban-Jatim', *Thesis* (Yogyakarta: Universitas Atma Jaya, 2011), www.e-journal.uajy.ac.id, pp. 40-45.

⁴⁷ Admin, 'SKK Migas dan CNOOC SES Berikan Bantuan Air Bersih di Kepulauan Seribu', *SKK Migas*, 21 September 2015, www.skkmigas.go.id, accessed 21 October 2016.

		2003), Ripah 15 (SK Bupati Tanjung Jabung Timur No. 113 Year 2006). ⁴⁸	
		Time: 2012 Programme: PetroChina Jabung already got oil drilling permission such as AMDAL/UPL, UKL, POD, and POP. PetroChina Jabung has applied oil drilling permission for 25 oil wells. ⁴⁹	No further information
Pay environmental damage compensation	Pertamina-PetroChina East Java Tuban Oil Field	Incident: Flare pipe radiation incident Victims: Farmers in Four Villages, Tuban Event: 10 Nov 2009 Compensation claim: Petrochina should pay IDR 500,000 monthly for each farmer. ⁵⁰	Compensation Payment: PetroChina willing to pay only IDR 40 million for 4 villages in August 2014. Recipients: Farmers at the Village of Rahayu, Sokosari, Sandingrowo, Soko, Bulurejo, Rengel-Tuban Response: Disapproval of the farmers ⁵¹
	PetroChina International Jabung Ltd	Incident: Lagan River mercury (Hg) leakage Date: 16 Mar 2012 Victims: Farmers in Tanjung Jabung Timur Compensation Claim: None. ⁵²	Compensation Payment: None, but with official apology Payment date: None

⁴⁸ Anonymous, 'PetroChina Tegaskan Sumur Aset Negara', *JambiUpdate*, 30 May 2013, www.jambiupdate.co, accessed 21 October 2016.

⁴⁹ Ibid.

⁵⁰ Elin Yunita Kristanti, 'Kompensasi Warga Rengel Ditunda Petrochina', *VivaNews*, 14 November 2009, www.nasional.news.viva.co.id, accessed 22 October 2016.

⁵¹ Ibid.

⁵² Joko Nugroho, 'Limbah Migas PetroChina Diduga Cemari Sungai di Tanjabtim', *Antara Sumbar*, www.antarasumbar.com, accessed 23 October 2016.

	Husky CNOOC Madura Ltd (HCML)	Incident: Damage on irrigation infrastructure Victims: Farmers in Madura Island Compensation Claim: IDR 12.5 million per household. ⁵³	Compensation Payment: No exact number Payment date: Confidential
Environmental impact report	PT Pertamina- PetroChina East Java	PPEJ did not have legal AMDAL document yet and should revise it along with RKL-RPL in 2003. They were even being rallied due the decrease in agricultural production caused by its waste disposal management. Time: 2011 PetroChina's field AMDAL permission in Sukawati Block was not yet granted by the local government. ⁵⁴	Time: 2012 Demand investigation and revision of PPEJ's AMDAL due to the Flare accident Time: 2016 PPEJ's oil drilling activities in Pad A Tuban is still within normal limits. ⁵⁵
	PetroChina Jabung Ltd.	Time: 2012 PetroChina's oil wells have been sealed by the local government because they have no permission for drilling oil in several wells. Time: 2012 They already got AMDAL/UPL, UKL, POD, dan POP for 4 wells.	Time: 2013 AMDAL, drilling, and location permissions are in process.
	Husky- CNOOC Madura Limited	No further information	Time: 2016 The company invites society to form the AMDAL Commission together. The company was criticised for the random formation of the AMDAL Commission.

⁵³ Admin, 'Warga Semare Tuntut HCML Berikan Kompensasi', *SketsaJatim*, 29 August 2016, www.sketsajatim.com, accessed 23 October 2016.

⁵⁴ Slamet Agus Sudarmojo, 'Izin Amdal Lapangan C Sukowati Belum Disetujui', *AntaraNews Jatim*, 25 July 2011, www.antaranews.com, accessed 24 October 2016.

⁵⁵ Tulus Addarma, 'Lahan Sekitar Pad A JOB PPEJ Masih Ambang Batas Normal', *BeritaJatim*, 15 January 2016, www.beritajatim.com, accessed 24 October 2016.

	PT Mikgro Metal Perdana	Time: 2012 People of Bangka filed lawsuit against PT MMP due to environmentally- unfriendly activities	Time: 2013 The people of Bangka won the lawsuit. Time: Sep 2013 AMDAL of PT MMP has been agreed by BLH (Badan Lingkungan Hidup—Living Environment Body) ⁵⁶
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Source : Adapted from various sources

⁵⁶ Ryo Noor, ‘Amdal Keluar Pulau Bangka Siap Ditambang’, *TribunNews Manado*, 10 September 2013, www.manado.tribunnews.com, accessed 25 October 2016.

3.3. Comparison between Chinese and other advanced countries in CSR

Throughout the years, Chinese companies have mixed CSR performance results in Indonesia. Chinese companies have implemented several distinguished CSR programmes to enhance the reputation of Chinese investments in Indonesia. In general, PetroChina spent most of its CSR budget on public facilities and agriculture (see Table 3.3).⁵⁷

Table 3.3 Budget allocation for Petrochina's CSR in Tanjung Jabung Timur during 2006–2008

No.	Sector	Subsector	Year (in million IDR)		
			2006	2007	2008
1	Agriculture	1. Husbandry	865.5	100	1,630
		2. Farming	377.5	90	
		3. Home industry	120	35	
Total of Agriculture Sector			1,863	225	1,630
2	Education		280	175	150
3	Health		140	-	120
4	Public facilities	1. Electricity	-	10,000	-
		2. Road	1,000	1,000	
5	Other expenses		217	100	100

⁵⁷ Chinese National Petroleum Company, 'CNPC in Indonesia', *CNPC*, www.csr.cnpc.com.cn, p. 8.

Total of all sectors	3,000	11,500	2,000
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Source: Bappeda Tanjabtim, 2008⁵⁸

In addition, Chinese companies have conducted several other significant CSR projects which were well-received in Indonesia.

➤ Sustainable Cattle Breeding Programme by PetroChina Jabung Ltd.

PetroChina granted over 80 good quality cattle to all farmers in Tanjung Jabung Timur District. The farmers also received technological devices and learnt proper cattle breeding methods such as artificial insemination. Under the guidance of PetroChina, the farmers learnt a new way of increasing cows' resistance to contagious diseases. PetroChina also provided technical assistance to utilize the biogas installation from animal excrements. Such technological assistance programmes helped the farmers opt for alternative energy for household needs. The farmers welcomed PetroChina's community development programme.⁵⁹

➤ Osmosis Clean Water Installation by CNOOC SES

⁵⁸ Subiyanto, 'Kemitraan CSR Petrochina International Jabung Ltd pada Pengembangan Sektor Peternakan Sapi dan Home Industri di Kecamatan Geragai Kabupaten Tanjung Jabung Timur', *Thesis*, Magister of Policy Studies, (Yogyakarta: Universitas Gadjah Mada, 2009), www.etd.repository.ugm.ac.id, p. 99.

⁵⁹ <http://skkmigas.mic.ads2.kompas.com/post/31/maju.berkat.lembu>

SKK Migas and CNOOC SES (China National Offshore Oil Company South East Sumatra) Ltd provided clean water aid for residents on three islands in the Kepulauan Seribu, Jakarta: Pulau Kelapa Island, Kongsu Island, and Harapan Island. During the dry season CNOOC SES Ltd provided residents in Kepulauan Seribu with 78 tons of clean water. CNOOC SES adopted reverse osmosis technology to produce clean water. According to Ahmad, the head of district, the residents applauded CNOOC SES for carrying out the sustainability programme.⁶⁰

➤ Bengawan Solo River Water Utilization

JOB (Joint Operating Body) of P-PEJ (Pertamina-PetroChina East Java) conducted a partnership programme with the Campurejo Village to help Farmers Group (Gapoktan) to maintain the productivity of rice crops by using water from the Bengawan Solo River. This programme improved the social economy of the local community by equipping some villagers with new farming skills to prepare them for jobs other than in the oil and gas industry.⁶¹

However, Chinese companies lack the ability to implement sustainable investment.

According to the Company Performance Ranking assesment conducted by the

⁶⁰ <http://www.skkmigas.go.id/skk-migas-dan-cnooc-ses-berikan-bantuan-air-bersih-di-kepulauan-seribu>

⁶¹ Dukung Lumbung Pangan dan Energi Bojonegoro (Support Food Barn and Energy Bojonegoro), 22 January 2016, http://beritajatim.com/berita_migas/257444/dukung_lumbung_pangan_dan_energi_bojonegoro.html

Indonesian Ministry of Environment, there are Four Colour ratings (PROPER Color rating)⁶² for the CSR assessment in the environmental aspects (see Table 3.4). Table 3.5 shows the positioning of Chinese companies according to the PROPER Color rating. The outcome turns out that the CSR performance by the Chinese oil companies is average.

Table 3.4 PROPER Colour Rating by Indonesia's Ministry of Environment

COLOUR RANKING	PARAMETERS
GOLD	Companies consistently reach the level of excellency in environmental protection and sustainable growth, as well as commitment to corporate social responsibility.
GREEN	Companies practice environmental preservation beyond standard set by the Indonesian law/regulation in implementing 4R principles (Reduce, Reuse, Recycle, Recovery) with community development programmes.
BLUE	Companies carry out sustainable environmental management as well as comply with Indonesian environmental law.

⁶² Indonesia's Program for Pollution Control, Evaluation, and Rating (PROPER) is a national-level public environmental reporting initiative. The objective of this novel regulatory tool is to promote industrial compliance with pollution control regulations, to facilitate and enforce the adoption of practices contributing to "clean technology," and to ensure a better environmental management system. See, http://siteresources.worldbank.org/INTEMPowerment/Resources/14825_Indonesia_Proper-web.pdf

RED	Companies do not comply with the Indonesian law or regulation and are undergoing the process of administrative assessment or sanctions by the Indonesian government.
BLACK	Companies seriously violate Indonesian law and cause severe environmental damage that triggers nationwide social unrest.

Source : Indonesian Ministry of Environment PROPER 2010 Report.⁶³

Table 3.5 Chinese Oil Companies CSR Performance Index

No.	Business Entity	Investment location	PROPER RANK	
			2000-2012	2012-2015
1	Petrochina International (Bermuda), Ltd.	Sorong, West Papua	BLUE	BLUE
2	JOB Pertamina Petrochina Salawati	Salawati, West Papua	BLUE	BLUE
3	JOB Pertamina Petrochina East Java	Bojonegoro, East Java	BLUE	BLUE
4	PetroChina International Jabung, Ltd.	Jabung Timur, Jambi	RED	RED
5	CNOOC SES, Ltd	North Jakarta	BLUE	BLUE

Sources : Collected from PROPER (Program Penilaian Peringkat Kinerja Perusahaan) ‘Company Performance Ranking’ from 2000 to 2015.

In Indonesia, complaints regarding Japan’s CSR are rarely seen in the media.

Japanese companies have gained a strong foothold in Indonesia due to decades of

⁶³ Kementerian Lingkungan Hidup Indonesia, *Laporan Hasil Penilaian Program Peringkat Kinerja Perusahaan Dalam Pengelolaan Lingkungan Hidup*. (Jakarta: Kementerian Lingkungan Hidup RI, 2012), p. 3.

engagement. Strict investment assessment, favourable working environment, positive CSR implementation, perceptions over Japanese investments and product quality have strengthened Japanese soft power in Indonesia. When the Japanese companies conduct CSR assessment, they conduct environmental due diligence, consult directly with local communities, and never proceed with a project until a robust environmental impact assessment has been achieved. They even apply far-above-average standards. For example, the majority of Japanese companies apply environmental assessment based on its domestic environmental protection regulations. They adopt much more advanced and sustainable waste management system, serving as a role model for other companies in Indonesia. The Japanese companies also tend to invest heavily in vocational training, and pay more attention to employee work safety and welfare. Last but not least, compared to other expatriates from China, Japanese managers are more willing to deal with the local communities and use approaches adapted to local customs while dealing with NGOs. American companies such as Freeport and Newmont were infamous for their poor environmental records. In 2000, the United States initiated the Corporate Code of Conduct to regulate the environmental and social impact of overseas investment. The US government set up the Overseas Private Investment Corporation (OPIC) to tackle critical development challenges to advance US foreign policy and national security objectives. One of the key priorities is impact investing, which aims to produce positive social impact while generating sufficient financial returns to keep these

projects sustainable in the long run. OPIC projects must meet congressional mandates concerning environmental protection, social impact, as well as health and safety. The guidelines and procedures are largely based on environmental and social impact assessment procedures of the World Bank and the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank, and the US Export-Import Bank. Such institutional arrangement has been legalised both domestically and internationally to facilitate implementation. In cases where American companies failed to implement CSR, OPIC imposed certain mechanisms to punish the companies' behaviour.

For example, OPIC suspended the insurance for political risks valued at USD 100 million to Freeport-McMoRan Copper & Gold after the latter was found guilty of severe environmental and social damage to Grasberg Minerals District in Indonesia in 1996 (Hu, Zhao, Zhou and Leung, 2013). Moreover, OPIC participates in making environmental and social impact policies to improve the investment environment for the host government. It has initiated and promoted several CSR seminars by encouraging the host country to adopt American standards, together with other government agencies such as the White House, the Senate, the US Trade and Development Agency (USTDA), etc.

Both Japan and the United States have promoted their soft power through directing its enterprises to invest in CSR measures. Favourable domestic state-business relations enable SMEs to compete on a fair and transparent level. The stringent regulations and penalty mechanism over business operations help ensure that companies comply with international and sustainable CSR standards.

3.4. Explaining Two Independent Variables

3.4.1. Chinese domestic institutional shortcomings for the oil industry

China's economic development has led to the global hunt for oil and gas. This effort is mainly carried out by its three major national oil companies (NOCs): CNPC, Sinopec, and CNOOC. These NOCs originated from a series of domestic reforms based on 1950s Soviet-style state ministry monopolies: the Ministry of Petroleum Industry (MPI) and Ministry of Chemical Industry (MCI). Because of the political legacy, these NOCs are still bureaucratically ranked. These NOCs are also encouraged to pursue economic returns and improve their business competitiveness, especially during the Going Out campaign.

The CSR approach adopted by Chinese oil companies is unique because of their institutional role under the Chinese political system (CNPC, 2014). On the one hand, the business activities of SOEs are heavily influenced by the governmental policies. NOCs have the political identity to serve the state directives. The national oil companies are dependent on the state for two major aspects of its management:

personnel appointment and funding (Meidan, 2016, pp. 34-36). Therefore, SOEs respond more effectively to the calling for CSR implementation than the small-medium private companies. The Chinese government is increasingly sensitive to global perceptions in its natural resource investment after the international boycott of its investment in Sudan in 2008. Effective CSR implementation creates an environment that enhances the image of the Chinese state, and fosters stronger bilateral relations with the host country (Shi and Li, 2015). The international society is gradually paying close attention to the environmental footprints of the growing Chinese businesses.

Inevitably, Chinese NOCs are challenged by domestic institutional deficiencies. First, China has a weak domestic legal system of overseeing and managing the oil industry. The absence of a complete and systematic law to oversee the operation of oil and gas companies creates regulatory loopholes for the conglomerate.⁶⁴ According to the *2006 Company Law Article 5*,

When undertaking business operations, a company shall comply with the laws and administrative regulations, social morality and business morality. It shall

⁶⁴ Zheng Hu, the previous vice-CEO of PetroChina agreed that the lack of specific law on oil and gas led to over-reliance on policy assessment and approval, Zhongguo Shiyou Tianranqi Hangye Jianguan Gaige: Guoji Yantaohui Baogao (Supervision and Management Reforms of China's Oil and Gas Industry: International Workshop Report), China Society of Economic Reform of State Council, 2001, <http://siteresources.worldbank.org/INTEAPCHINAINCHINESE/News%20and%20Events/21883093/ogsrr-ch.pdf>

act in good faith, accept the supervision of the government and the general public, and bear social responsibilities.

But the enforceable obligation is questionable. NOCs are required to ‘talk the talk, and walk the walk’ before conducting any environmental assessment. Moreover, Chinese domestic enforcement does not guarantee compliance with international CSR norms. Instead, the management and supervision of NOCs relies heavily on policy papers and administrative directives. In 2013, China’s MOFCOM and MEP, the two ministries issued the *Guidelines* for environment protection for overseas investment and cooperation, which states that enterprises should consciously abide by the *Guidelines* without legal compliance or punishment mechanism.⁶⁵

Second, overlapping functions and undefined roles of different governmental bodies undermine any effort to supervise the NOCs. In Chinese bureaucracy, there are multi-layered governmental bodies in charge of supervising and managing the oil industry. In addition to the NDRC that dominates the managerial and planning process, governmental bodies such as the Ministry of Land & Natural Resources (MLNR), MOFCOM, MOF, SASAC, MEP, and so on are also in charge of the supervision of different aspects of the oil industry. The incomplete political and economic reform

⁶⁵ Notice on ‘The Guidelines of Environment Protection for Overseas Investment and Cooperation’, 28 March 2013, <http://www.mofcom.gov.cn/article/b/bf/201302/20130200039930.shtml>

results in opaqueness in the state-business relations (China Society of Economic Reform of State Council, 2001, p. 16). According to Transparency International, China is among the most corrupt countries in the world, ranked 83rd out of 168 countries in 2015.⁶⁶ Corruption is rife in China also due to SOE bureaucracy and undefined state-business relations. After Xi Jinping took power, in a recent crackdown on corrupted managers in the oil sector, the Central Commission for Discipline Inspection pointed out that a clean business line has not been established in China's state-business relations. Corrupt activities have even spilled overseas. For example, PetroChina's former Indonesia country head Wei Zhigang was removed from his post amid corruption investigation.⁶⁷

Third, with decentralisation, market reform, and constant changes to the bureaucratic setup of the NOCs, the government's monitoring capabilities weakened while the companies' freedom in the market place increased. Under the planned economy, central state-owned firms became too powerful. An MEP official claimed, "They set standards, approve projects, accept the project on completion, then supervise themselves."⁶⁸ The power gained from reforms and the state ownership insulates Chinese NOCs from market competition. Therefore, NOCs benefit from a captive and controlled market that is less responsive to CSR and other corporate activities than a

⁶⁶ <http://www.transparency.org/country#CHN>

⁶⁷ <http://companies.caixin.com/2013-10-17/100593067.html>

⁶⁸ Interview conducted in December 2015.

company where the market dominates the competition. Moreover, NOC attempts to fulfil CSR obligations would face a domestic institutional barrier. The interests of the governmental officials and NOCs are closely tied as the NOC operations serve both strategic and economic interests of the national economy. Such a mode caters to the political promotion of the government officials.

Fourth, Chinese NOCs have hardly any experience in domestic dealings with the civil society, which leads to the lack of understanding of its overseas CSR practice. Instead of solely relying on government initiatives to investigate and impose penalties for noncompliance, Chinese NOCs need the support of a civil liability regime where third parties are expected to enforce public policy, and sue corporations for not complying with existing regulatory regimes. Domestic regulatory and civil liability regimes have limited power to enforce NOCs' compliance with CSR standards.

Last but not least, independent assessment is lacking in Chinese CSR reporting due to weak government legislation (China Council for International Co-operation on Environment and Development, 2013). In the 2013 report on extractive resource, Golden Bee revealed that only five out of sixty reports applied a third-party assessment system. PetroChina was not included.⁶⁹ State-business relations reduced the reliability of CSR reporting by the Chinese companies.

⁶⁹ CSR-China, 18 July 2014, <http://csr-china.net/a/zixun/xingye/2014/0718/272.html>

Owing to domestic institutional embeddedness, Chinese NOCs often face difficulties adapting to foreign, legal, regulatory, tax, and political environments. Chinese companies' decision-making processes are usually opaque; their business practices are frequently corrupt; and their accounting procedures are often fraudulent. China does not have adequate domestic legal counsel knowledge about foreign legal and regulatory environments (Shambaugh, *China Goes Global: The Partial Power*, 2013).

3.4.2. Indonesia's CSR building

There are three levels to evaluate Independent Variable Two in Indonesia CSR building in Indonesia: the political and legal framework for CSR establishment, local CSR networks, and the interaction between the first two.

Indonesia has the largest Muslim population in the world and its CSR concept is heavily influenced by the religion. The concept of 'gotong royong' (shared responsibility) originated from the formation of impromptu groups to maintain the welfare of the village community. The value of 'tolong menolong' (mutual help) both in urban and rural areas is embedded in Indonesia's culture (Rosario, 2011).

After the conclusion of Suharto's New Order (a period characterized by corruption and little regard for corporate compliance or socially responsible business

behaviour),⁷⁰ Indonesia made incremental progress in reforming its political and corporate sectors. The democratisation and decentralisation of Indonesian politics have led to a new emphasis on environmental protection, financial accountability, transparency in governance, and human rights protection. However, as a developing country, Indonesia faces serious social problems such as poverty, education, health concerns, and environmental issues; thus the government has limited CSR understanding and experience in CSR implementation. The patriarchal feature of domestic companies also reduces the CSR concept to one that is centred on charity or philanthropy.

There are several drivers for the introduction and improvement of CSR standards in Indonesia. First of all, the push for corporate responsibility comes from the international demands for CSR. Indonesia has an internationally-linked market where international investors need to comply with international standards in order to respond to global market demands. The environmental degradation caused by both foreign and domestic investment (especially in extractive resource industry such as palm oil and mining) intensified the need for transparency and accountability of the business actors. Most multinational companies have conducted mandatory CSR

⁷⁰ The corruption, nepotism and cronyism led to irresponsible supervision over foreign investment inflows to Indonesia. For example, the Freeport-McMoRan Copper and Gold Inc. operated irresponsibly when it caused severe pollution and health damage to the local community in Indonesia between 1973 and 1995.

activities and now take the lead to share expertise and knowledge to promote the concept of social licence. International companies such as Nike and Levi's encouraged multinational companies to take responsibility for their supply chains. Some MNCs in Indonesia even go beyond what is mandated by Indonesian law to help the local businesses improve their practice (Rosario, 2011, p. 22). In 1999, Indonesia Business Links (IBL) was established by international organizations and MNCs to help improve the state of corporate governance in Indonesia.⁷¹

Second, the activity of civil society liberated from Indonesia's democratisation has contributed to the CSR adoption in Indonesia's ruling. The fall of Suharto regime led to the emergence of a discourse on governance, accountability, and transparency of public issues. It was suggested that the Indonesian government begin to appreciate the NGOs' ability and efficiency in delivering aid to the areas hit by the 2004 tsunami disaster. By giving opportunities to NGOs, the government soon realised the benefits that NGOs could bring to improve community capacity (Antlov, Ibrahim & Tuijl, 2005). NGOs in Indonesia also began to form coalitions to carry out advocacy to influence the government and even drafting laws and regulations. In 1999, the Indonesia Business Links (IBI) launched a campaign targeting improvement in transparency, effective governance, independent supervision, and CSR reporting disclosure of the business activities in Indonesia. In 2002, Indonesian NGO activists

⁷¹ <http://www.ibl.or.id/en/>

established Business Watch Indonesia (BWI) to promote CSR. In 2005, BWI proposed legitimising CSR in Indonesian law to the Indonesian parliament. Although the final decision was to keep CSR requirements confined to the extractive resource sector, the Indonesia government made CSR mandatory for Limited Liability Companies in 2007.

Third, long-term economic growth plan and poverty-alleviation policy, coupled with a concern for sustainable development, have forced the Indonesian government to proactively promote CSR. Indonesia encountered major social and environmental challenges throughout its developmental course. Including the CSR concept in the Indonesian law system was supposed to restore a legitimate societal governance system targeted at enhancing economic competitiveness. In addition to passing the *Limited Liability Companies (LLC) Law* in 2007, Indonesian government also introduced several important laws and regulations for socially responsible practice of the corporations (see Table 3.6). It introduced environmental assessment rating system as early as 1995. It also passed several laws such as *State-Owned Company Law No. 19 of 2003* (requiring the allocation of funds for the society and environment), the *Investment Law No. 25 of 2007* where *Article 15* stipulates the CSR implementation and emphasising environmental protection and government regulation *No. 47 of 2012* about environment and social responsibility and the implementation of *Article 74 of LLC*. In the financial sector, Indonesia government

set up the *SRI-Kehati Index* for Indonesian stock exchange to set a reference and benchmark for evaluating corporations' performance. It even introduced the Indonesian Biodiversity Foundation (Yayasan Kehati) to raise the awareness of the environmental and social impact of the business.

Table 3.6 CSR Timeline in Indonesia

Year	Adoption
1995	Programme for Pollution Control, Evaluation and Rating (PROPER)
1999	Indonesia Business Links (IBL)
2002	Business Watch Indonesia (BWI)
2003	State-Owned Company Law No. 19
2006	Global Compact Local Network Indonesia
2007	CSR Law was passed in Article 74 under the Law 40/2007 on Limited Liability Companies Law (LLC)
2009	SRI-Kehati index
2012	Government regulation No. 47 of 2012

Source: Author's collection from various resources ⁷²

Indonesia has been bringing its legal, regulatory, and accounting system into compliance with international standards, albeit little progress in the monitoring-and-compliance stage.

There are several factors accounting for the relatively ineffective CSR regime in Indonesia. First, corruption existing in the nexus of business and politics still hinders CSR implementation. According to Transparency International, Indonesia's ranking in the Corruption Perception Index is at 88/168 in 2015, rising from 110/178 in

⁷² Refer to Sharma (2013) and other media resources.

2010.⁷³ Although the central government has adopted decentralisation to cut complex bureaucratic procedures, another form of corruption flows to the local level for firms to navigate, resulting in red tape. The decentralisation also weakened governmental coordination in land acquisition for infrastructure projects. The lack of coordination across different levels of ministries and departments often created redundant action, slow progress, and conflicting regulations. In the interview conducted, quite a number of investors cite that laws and regulations are often vague. Varying interpretations by different levels of governmental bodies in Indonesia have led to rent-seeking opportunities.⁷⁴ Therefore, the lack of well-defined regulations and the lack of transparency are hindering CSR implementation.

Second, CSR enforcement is difficult in Indonesia. Although CSR reporting is growing, it is not mandatory for companies to disclose CSR-related information in Indonesia. First, Indonesia does not adhere to the OECD Guidelines for Multinational Enterprises. Second, all industry groups have opposed the mandatory requirement of *Article 74 of CSR Law of 2007* and lobbied hard to get it ruled unconstitutional. Another appeal of 2009 to the Constitutional Court was also unsuccessful. Moreover, the Indonesian government lacks technical capability and experience in implementing CSR. It is a new concept in Indonesia and only publicly discussed from 2004,

⁷³ <http://www.transparency.org/country#IDN>

⁷⁴ Interviews with companies from China, Japan, the Netherlands, and several Indonesian domestic companies.

according to Professor Rosser (Sharma, 2013, p. 112). Despite huge investments, there is limited general awareness of the CSR programmes even among government regulators and officials (US Department of State, 2015). Understanding of CSR in Indonesia is limited and tends to focus on charity, community, and economic development. Because much resource extraction activity takes place in remote and rural areas where government services are limited or even absent, the companies are left to decide whether to apply CSR. Indonesia's court system often lacks effective resources for resolving disputes because regulatory supervision and implementation is inconsistent across governmental bodies of Indonesia.

Last but not least, the role of NGOs as a watchdog towards government is limited for CSR though the NGO sectors appear vibrant in challenging the state-business relationship. Despite the large number of NGOs in Indonesia, their power is far from that of a nationwide coalition capable of influencing the central government. Most of the NGOs have little experience in positively engaging with the government, the business sectors, and other stakeholders. Meanwhile, NGOs are vulnerable to malpractice and corruption. What is still missing in the civil society is an organisation to monitor the NGOs' activities.⁷⁵ The perception of NGOs as agents of Western influence from the government casts further doubt on their role to represent their

⁷⁵ Ganie-Rochman, Meuthia, 'Needs Assessment of Advocacy NGOs in a New Indonesia', in Antlov, Ibrahim & Tuijl (2005).

constituents' interests. Because of this, NGOs have difficulties in developing effective partnership with the government. NGOs in Indonesia also face development problems. Most NGOs are based in cities such as Jakarta and thus their local presence is weak in remote villages. Even if they oversee the business in the rural areas, the leaders of NGOs are usually elites, university graduates, or members of the middle class possessing little knowledge of grassroots demands and isolated from the local society where companies operate.⁷⁶ Therefore, NGO political impact on the government is rather weak.

3.5. Case Studies: CSR performance of PetroChina in Indonesia

PetroChina was established in 1999 as part of CNPC's restructuring programme.⁷⁷ The mother company CNPC, as the successor to the previous Ministry of Petroleum Industry, enjoys equivalent ministry-level treatment within the Chinese bureaucracy. Therefore, it is in an advantageous position for financing. PetroChina is of special importance to CNPC and to the government because they provided a large share of corporate and state revenues. In 2005, PetroChina provided approximately 56 per cent of CNPC's profit (Meidan, 2016, p. 32). As CNPC aimed to make businesses profitable, it injected assets and liabilities involved in the production, refining,

⁷⁶ Sidel, John, 'Watering the Flowers, Killing the Weeds: The Promotion of Local Democratization and Good Governance in Indonesia', in Antlov, Ibrahim & Tuijl (2005).

⁷⁷ In April 2000, it was listed in New York and Hong Kong exchanges and gained USD 2.89 billion dollars in its initial public offering (IPO) that accounted for 10 percent. The remaining 90 percent of share was retained by the CNPC.

marketing and exploration of petrochemicals and natural gas into PetroChina. PetroChina is one of the most profitable players in overseas investment, despite its lacklustre CSR records vis-a-vis its financial performance.⁷⁸

PetroChina began investing in Indonesia since 2002 when it made an acquisition deal with PT Devon Energy Indonesia through its subsidiary-PetroChina International Indonesia Ltd. Currently, PetroChina operates several oil fields Tanjung Jabung Timur-Jambi, Bojonegoro-East Java, Salawati, and West Papua. According to Indonesian Ministry of Energy and Mineral Resources, PetroChina is already the 10th largest petroleum company in Indonesia with production reaching 17,000 barrels a day in 2016. Although PetroChina was among the leading Chinese SOEs that issued CSR by countries and regions, its CSR practice is heavily influenced by domestic institutional constraints and Indonesia's weak CSR compliance in its investment in Jambi Province and East Java Province of Indonesia.

- PetroChina in Jambi Province

There are mainly several complaints about PetroChina's CSR practice in Jambi province (see Table 3.7).

⁷⁸PetroChina scored average on the CSR ratings, see https://www.csrhub.com/CSR_and_sustainability_information/Petrochina-Company-Limited/

Table 3.7 Obstacles in PetroChina's CSR Planning and Implementation in PetroChina Jabung of Jambi Province

STAKEHOLDERS	OBSTACLES	IMPACT
PetroChina International Jabung Ltd.	<ol style="list-style-type: none"> 1) Insufficient human resource to implement the CSR programmes 2) Government-oriented cooperation approach 3) Top-down coordination system (centralised decision making process) 4) Budget issue 5) Mistrust/ Lacking experience in dealing with NGOs 	<ol style="list-style-type: none"> 1) Ineffective programme implementation 2) Limited cooperation with NGOs 3) Limited communication with the public 4) Lacking in transparency in CSR Reporting 5) Environmental and social disputes
Government of Jabung Timur District	<ol style="list-style-type: none"> 1) Limited knowledge on CSR programme and regulation 2) Sectoral interests 3) Bureaucracy 	<ol style="list-style-type: none"> 1) Limited technical assistance to the residents 2) Lack of coordination among different parties 3) Sectoral conflicts
Recipients (Local Resident)	<ol style="list-style-type: none"> 1) Unawareness of CSR 2) Reliance on authorities 	<ol style="list-style-type: none"> 1) Exclusion from decision-making process 2) Intervention by other parties 3) Lacking in administrative guidance

Source: Author's data collection and Subiyanto (2009, p. 128)

Despite attempts by the Chinese government to improve CSR in its overseas business, there is little evidence of a grand strategy for China's companies to apply. For example, PetroChina lacks a defined institutional mechanism for CSR management and operation team. The major barriers to the overseas CSR include the lack of personnel support, professional training, and the absence of institutional incentives for the responsible managers.

Some company managers believe CSR implementation creates extra financial burdens; they do not have timely assistance when there is a financial challenge. Although it is required by the Chinese Company Law and the 2008 Directives for the Central SOEs to implement CSR, many of the companies do not set up a technical CSR team for consultancy. Within the company, coordination is poor while the roles for implementing CSR are usually unclear. When it comes to the overseas investment, the insufficient number of staff and lack of technical knowledge of CSR limit the Chinese company's ability to deliver the CSR programme to the public.

As stipulated by SKK Migas, it is the company's responsibility to incorporate local people and government before making a comprehensive CSR proposal. Given the remote geographical features of Indonesia, the small number of representative staff from PetroChina, and their lack of CSR expertise,⁷⁹ it is difficult for them to hold a public hearing. Besides, the local government lacks experience in helping local residents understand the CSR concept.

Jabung Timur local residents attended hearing held by PetroChina as part of its community development programme. But the absence of technical assistance from both the company and local government limit the role of the local people in task of

⁷⁹ It is claimed only six people are involved in the community development programme of PetroChina Jabung.

community development.⁸⁰ The problem actually is that the local residents were unskilled and inept at writing the proposal and thus unable to articulate their main interest in every meeting with PetroChina. Their interest fails to be expressed to PetroChina or to be delivered to PetroChina. As the local government, this is “our biggest concern to carry out more proactive measures in community development by writing a proper proposal to PetroChina.”⁸¹

The local informant from Geragai Village also confirmed that, “...in every meeting, the locals here always come. However, they (PetroChina) delivered their community programme without a good discussion with us. And, the locals here always agreed with what PetroChina delivered though they (locals) did not really understand the discussion...”⁸²

As a commercial entity after the economic reform, PetroChina viewed economic returns as its first investment priority. Therefore, it cut costs in training and consultancy though they still carry out CSR activities related to donation for infrastructure projects. Information on PetroChina’s contribution to the local community is mostly limited to donation. CSR funding is acceptable in the Indonesian local community because the latter believes that CSR is all about charity

⁸⁰ Subiyanto, Halaman 134-135.

⁸¹ Interviews on March 3, 2016.

⁸² Interviews on March 4, 2016.

and philanthropy. Even so, CSR budget is still a key concern in PetroChina's operations. Therefore, they tend to cut down public hearing to minimise the costs. In Tanjung Jabung, PetroChina had only one coordination programme with the Timur regency government (excluding other third parties) to cut the budget.

“... we (PetroChina) is a profit oriented company that strictly commits toward making an effective and efficient working environment. To make a reasonable budget is also our main concern when doing community development here...”⁸³

When the management team was asked about the CSR investment in community development programme, they were reluctant to disclose the details.

“...Sorry, I have no rights to answer about PetroChina's budget and expenditure especially for community development program...”⁸⁴

According to *Bappeda* (Economic Development Board) of Tanjung Jabung Timur Regency Office as coordinator for the CSR programme, PetroChina did not report the annual revenue to *Bappeda*:

⁸³ Subiyanto, Halaman, 131.

⁸⁴ Ibid.

“...Until now, we don’t have official information regarding how much annual profit PetroChina gains and its budget for community development. We only heard that their CSR funds are always in big numbers. The CSR funds spent every year in a planned or incidental programme...”⁸⁵

The decentralisation of Indonesia strengthened the authority of the local government but it led to an unfavourable environment for companies to apply CSR standards. The lack of coordination among different governmental bodies intensifies the inefficiency of CSR implementation by the companies. Under Indonesia's autonomy law, it is justifiable for local governments to get a share of revenue which the national government collects from oil and gas fields. They even have the authority to draft all sorts of regulations that violate the national oil and gas law. A closer look at the Indonesian Investment Law and the Company Law shows that CSR is perceived in different ways. The Investment Law emphasises the holistic aspect of CSR (integration of social and environmental impact); the Limited Company Law seeks to distinguish social responsibility from environmental responsibility. The foreign companies are usually caught in the middle.⁸⁶

⁸⁵ Ibid.

⁸⁶ Tim Johnston, Legal row threatens joint project in East Java, *Financial Times*, 12 April 2005, http://www.ft.com/cms/s/0/4e7ff27c-aaf1-11d9-98d7-00000e2511c8.html?ft_site=falcon&desktop=true#axzz4QhjFW4UX

PetroChina International Jabung Ltd proposed 150 oil wells to SKK Migas in 2013 and 26 of these did not obtain the drilling permit from the local company. The Jambi government sued PetroChina in the Pengadilan Tata Usaha Negara (State Affairs Court) in Jakarta for the ‘illegal drilling’. Moreover, PetroChina was accused of not complying with CSR standards when it was building clean water infrastructure, school building, and roads.⁸⁷ Tanjung Jabung Timur District Government that blocked the well drilling also demanded annual contributions valued IDR 3.3 billion from the company’s oil production.⁸⁸

The Indonesian central government oversees its oil and gas industry directly via SKK Migas. The latter urged PetroChina to carry out CSR activities immediately. However, the central government also ordered Tanjung Jabung Timur District Government to stop blockage lest the long-haul dispute would affect oil production targets. As economic development remains the priority for the Indonesian government and creating a favourable FDI environment for foreign companies outweighs the CSR requirements for foreign companies.

⁸⁷ Jon Afrizal, ‘Petrochina proceeds with CSR despite row with local govt’, *The Jakarta Post*, 29 May 2013, <http://www.thejakartapost.com/news/2013/05/29/petrochina-proceeds-with-csr-despite-row-with-local-govt.html>, accessed 22 October 2016.

⁸⁸ Ayu Ombong, ‘Seluruh Izin PetroChina di Jabung Terancam Dicabut’, *Tempo*, 30 May 2013, <https://m.tempco.co/read/news/2013/05/30/058484500/seluruh-izin-petrochina-di-jabung-terancam-dicabut>, accessed 20 October 2016.

SKK Migas criticised the East Tanjung Jabung administration. "Regional administrations should not do that," deputy energy and mineral resources minister Susilo Siswo Utomo told reporters. SKK Migas spokesman Elan Biantoro made a direct request to Tanjung Jabung Timur District Government not to seal the oil wells so that oil production can continue. SKK Migas said the Tanjung Jabung Timur District Government had acted beyond their authority.⁸⁹

PetroChina prefers an elite-oriented approach that has been in its business practice back in China. This is because state-business relations in China exclude grassroots participation. Chinese companies view NGOs as anti-government and are inept at dealing with NGOs (Jiao, 2015). Therefore, PetroChina are not motivated to deal with civil society or NGOs, especially when the host country has a similar institutional environment. In this regard, PetroChina has limited records in establishing an official partnership with NGOs.

There are three distinguished NGOs in Indonesia that are active in promoting the CSR idea and practice, namely, Indonesia Business Links, Business Watch Indonesia, and Global Compact Local Network. So far, none of the Chinese companies are members in any of these three organizations, not to mention PetroChina. As the top

⁸⁹ Anonymous, 'PetroChina, Jakarta in Row', *Trade Arabia*, 3 June 2013, <<www.ugm.ac.id>>, accessed 22 October 2016.

10 natural resource investors in Indonesia, PetroChina is also absent in activities organised by Indonesian Employer Association (APINDO).

In many cases, this Chinese company had worked directly with the governmental bodies susceptible to a lack in transparency. For example, PetroChina International Jabung Ltd cooperated with Tanjung Jabung Regency Authority which prepared the CSR programme without any support from the Geragai district government (a sub-district of Tanjung Jabung) and its local residents. Facing the request from NGOs, PetroChina appears passive in public relations and avoided interaction with NGOs. In 2013, dozens of protesters from ANJALI (Asosiasi Mahasiswa Pemuda dan LSM Jambi), a student alliance and NGOs Association of Jambi, protested and blocked SKK Migas Office in Jambi, demanding for transparency of business deals. They urged SKK Migas to produce oil and gas production auditing immediately from PetroChina International Jabung ltd. The protesters also demanded that the BPK RI (Financial Audit Board of Indonesia) audit oil/gas revenue and tax collection from this Chinese oil company. However, in delivering the demands of the local community, this NGO only stays at the level of protesting without establishing effective partnerships with the government and PetroChina. Without revealing much information, PetroChina's representative Riza Primahendra explained to the journalist

that SKK Migas had already granted PetroChina oil-drilling permits for the 2000-2020 period.⁹⁰

On the one hand, given the domestic institutional embeddedness, the majority of Chinese companies generally showed apathy towards the task of CSR disclosure. They did not carry out CSR strategic planning or systematic management. On the other hand, Indonesia failed to make CSR disclosure mandatory. In the District of Sarolangun of Jambi province, PetroChina was reported to delay the CSR programme implementation. Sugeng Mulyadi, the head of Sarolangun's Office of Energy and Mineral Resources (ESDM), claimed that the Office had not received any annual CSR report details from PetroChina between 2012 and 2014.⁹¹

PetroChina has undergone different stages of CSR reforms, yet reporting on CSR funding and spending remain vague. In the 2006 CSR report, there is limited coverage on PetroChina's overseas CSR: tax contribution to the host country, philanthropic activities, and increasing jobs for the local people.⁹² The 2007-2009

⁹⁰ Jogi Sirait, 'Desak Audit PetroChina, Massa Segel Kantor SKK Migas Jambi', Mongabay Institute Indonesia, 25 November 2013, www.mongabay.co.id, accessed 25 October 2016.

⁹¹ Anonymous, 'CSR PT Petro Cina dan PT Meruap Belum Jelas', *Jambi Times*, 5 June 2014, <http://www.thejambitimes.com/2014/06/csr-pt-petro-cina-dan-pt-meruap-belum.html>, accessed 19 October 2016.

⁹² This report covers PetroChina in helping (a) the Tuban district in Indonesia by building roads, government building, and (b) the Jabung district in infrastructure construction, maintenance, and development of agriculture. PetroChina also donated RMB 6.4 million to Indonesia. *2006 PetroChina Social Responsibility Report*, p 49,

CSR reports cover the communication with the host government, visiting community, and increment of information disclosure without giving specific explanation.

However, it starts to bring in the concept of 10 Principles from Global Compact.⁹³ In 2010, the Report for the first time introduced PetroChina's community development effort via medical care, professional training for the locals, and cooperation with third party, albeit at a limited scale.⁹⁴ In 2011, PetroChina included the element of interacting with NGOs as stakeholders in its report.⁹⁵ In the same year, PetroChina issued regional and country CSR report that includes Indonesia. It cited that Indonesia encouraged career development of Indonesian employees via improvement in its training and performance management system. It is claimed that the number of localised employees increased to 98 percent.⁹⁶ The 2012 Report directed attention to

<http://www.cnpc.com.cn/cnpc/qyshzrbg/201404/d01fac3f4c24433b8a66d4e97c6f6f36/files/23a2b0581ef742a380ce93e0460495d8.pdf>, accessed 12 March 2015.

⁹³ 2007 PetroChina Social Responsibility Report, pp. 9 and 48,

<http://www.cnpc.com.cn/cnpc/qyshzrbg/201404/5821511cfdaf476da9160f36be70e54e/files/35d8de2bbd80403cb794922a8b8672cc.pdf>, accessed 12 March 2015.

⁹⁴ 2010 PetroChina Sustainable Development Report, p. 49,

<http://www.cnpc.com.cn/cnpc/qyshzrbg/201404/10f9ac02ecd3494da2715e0e8cadb110/files/510ff732482b441e9b24f76e218295bf.pdf>, accessed 12 March 2015.

⁹⁵ 2011 PetroChina Sustainable Development Report, p. 48

<http://www.cnpc.com.cn/cnpc/qyshzrbg/201404/a7bf3cd629d34fd19a2d06ff757a503b/files/a62bfb59db50480982da1e215d2b4369.pdf>

⁹⁶ This is also due to Indonesia's strict migration and labour laws that restrict the use of contract workers. PetroChina (Indonesia) chooses to use local employees. It has a team of over 3,400 employees, 98 percent of which are local Indonesians. They also have a diversified recruitment profile, hiring employees from more than 10 countries, such as the United Kingdom, America, Canada, and Australia.

the climate change and participation in the UNGC China Forum. To promote community relations, PetroChina sought local suppliers. For example, in Indonesia, PetroChina worked on local connections to develop cooperation in technology and logistics, catering to the needs of the local small-medium enterprises.⁹⁷ What is more striking is that this Report begins the disclosure of Question and Answer to the public. The 2013 and 2014 Reports showed improvement in cooperation with NGO, activities related to environmental and social impact assessment, and even disclosure of CSR information. Both reports also introduced the progress of its Employee Assistance Programme since 2002.⁹⁸

- **PetroChina in East Java Province**

There are several problems arising from China's CSR implementation in the East Java Province. In the Suci village, China's CSR funds were delayed and not evenly distributed. In the Bojonegoro District, PetroChina did not disclose employment data even upon the request of the government. There are several reasons for such problems.

⁹⁷ According to the report, PetroChina provided over 3,000 direct job opportunities and almost 5,000 indirect job opportunities, 2012 PetroChina Sustainable Development Report, p. 59.
<http://www.cnpc.com.cn/cnpc/qyshzrbg/201404/44dcdff99c624930aba4b415af8cb37b/files/d7916be5f3da4c479bbff7ee47982476.pdf>

⁹⁸ 2014 PetroChina Sustainable Report, p 48,
<http://www.cnpc.com.cn/cnpc/qyshzrbg/201503/79ac720a124246c497d2be3d5ef16a2a/files/0d4e93f92c7b44a28cb99d8d31512570.pdf>

PetroChina appears passive and often relies on the local government to launch the CSR programme. Based on information collected via an interview session with Mr. Miftah M.H, the Acting Secretary of Suci village, for the past few years, the local government had repeatedly proposed community development programmes to PetroChina. However, PetroChina responded only once to allocate CSR funds to Suci Government without taking the initiative to approach the civil society or the NGOs. Moreover, its commitment to CSR practice appeared symbolic as it lacked a consistent CSR programme. The Suci government received no disclosure of the CSR budget plans from PetroChina. Usually it works directly with the upper level of Gresik Regency that oversees the district issues. PetroChina also ignored frequent requests from the Disnakertransos (Service Office of Manpower, Transmigration and Social Affairs) of Bojonegoro District. The Article 23 of Bojonegoro Law of 2011 stipulated that the oil and gas companies should report information on labour including profile data on subcontractors.

On the one hand, PetroChina's CSR behaviour is the institutional spillover effect of its own domestic deficiency to Indonesia. According to an anonymous interviewee, the Indonesian branch of PetroChina does not have a mandatory requirement from its home country to conduct CSR activities. The head office in China was slack in supervising its subordinates. After economic reform, business returns became the top priority of the company. PetroChina ought to reconsider its profit vis-a-vis the cost of

CSR activities. PetroChina tends to borrow its domestic experience of working with the higher bureaucratic level of government to safeguard its investment while overlooking the demands of grassroots. PetroChina, as a giant conglomerate in China, usually approaches governmental officials who have more power in decision making. Because of this elite-oriented approach, PetroChina appears passive in approaching the local community and NGOs. In most cases, monetary compensation dominates the form of CSR implementation. They assume that CSR fund allocation is a contribution to community development without first understanding the needs of the local community. PetroChina is susceptible to corruption because it does not have an audit management system for CSR funds. Such domestic experiences spill over to the practice in Indonesia. Take for example, the case of Chinese companies approaching East Java's government to oversee the business activities of its constituency.

On the other hand, unnecessary intervention and inefficient coordination by other governmental bodies in Indonesia have caused PetroChina to be at a loss in conducting CSR activities. Mr. Miftah said the local government of Suci village sometimes faced coordination issues with other governmental bodies. The upper level of governmental intervention complicated the proposal drafted by Suci village and the CSR fund distribution plan of PetroChina. Given its passive attitude in carrying out CSR activities, the uncertainty over the governmental coordination among Indonesian local government motivated PetroChina to adopt a 'wait-and-see' approach.

As Indonesia is improving its domestic CSR supervisory mechanism, the CSR funding has to undergo certain forms of audit. In 2014, Manyar Sub-District Government in East Java province established an independent CSR Supervisory Board that aims to facilitate all CSR funding from foreign companies. Nonetheless, the assessment is limited to basic audit while the assessment of the impact on sustainable development remains unknown. After all, the understanding of CSR at the local level revolves around charity and philanthropy.

PetroChina actually recruits local people to work on the CSR community programme. However, people recruited in the CSR programme are from other regions while their operations are located in remote areas. The company and the local government usually select highly-educated candidates but this excludes most of the local residents. However, these candidates have little knowledge of grassroots demands and less connected to the local society.

3.6. Conclusion

CSR implementation has been on the rise in China's economic diplomacy to address the increasing investment risks as well as notoriety of overseas Chinese business actors. As Chinese NOCs are venturing abroad, their business performance is moving towards international standards. However, Chinese NOCs display their corporate culture and business practices are embedded in the home institutional weaknesses. The success of CSR implementation is limited by various factors: short-term profit

orientation, lack of transparency and oversight, isolation from the civil society, and a high degree of corruption.

At the same time, to attract more foreign investors, the Indonesian government sought to improve the investment environment in areas such as labour, infrastructure, tax, and customs. However, conventional CSR drivers in Indonesia are still weak: limited governmental understanding and technical knowledge of CSR, weak enforcement of CSR Law and regulation of business activities; and weak and unorganized civil society (leaving NGOs without accountability and capacity to function as a watchdog of the government). These challenges faced by home country and host country characterise the uniqueness of the Chinese CSR approach.

After President Jokowi has prioritised investment boost, including foreign investment, to support Indonesia's economic growth goals, top-level leadership visits between the two countries became evident. In 2015, China and Indonesia signed a joint statement on comprehensive strengthening strategic partnership, resulting in a large sum of investment projects. For example, automaker company SAIC-GM-Wuling (SGMW) built a car manufacturing assembly in Bekasi, West Java with total investment up to IDR 9.7 trillion. Other examples include Well Harvest Mining Project, Morowali project, and a bullet train project. Increasing investment projects led to China's ranking as the fourth top investor, with realised investments of

approximately USD 500 million in the first quarter of 2016.⁹⁹ The Indonesian government announced the creation of a one-stop shop for permits and licences at the Investment Coordination Board and as it continues to show commitment in removing bureaucratic barriers to investment, more foreign investments are expected for Indonesia.

In order to stand out and develop a deeper foothold in Indonesia, the Chinese government should include CSR concept and implement it as part of a wider system of national governance. This involves joint effort by governmental institutions, business organisations, and NGOs. Nevertheless, the task of safeguarding the well-being of local communities and the protection of ecosystems affected by resource development is not merely China's responsibility. It is critical that investor and recipient countries' governments are competent and committed to devising and enforcing laws and policies that induce diligence on the part of companies in meeting sustainable CSR standards.

⁹⁹ <http://www.thejakartapost.com/news/2016/06/13/chinese-investors-increasingly-enthusiastic-about-indonesia-rsm.html>

4. Chapter Four - China Railway Engineering Corporation in Vietnam

4.1. Introduction

Among the members of ASEAN, no other Southeast Asian nation is as related to China as Vietnam. Historically, Vietnam had struggled through the pre-Imperial tributary system in exchange for sovereignty and independence for centuries. Before the Sino-Soviet Union split during the Cold War, China and Vietnam enjoyed a revolutionary comradeship as both leaderships shared an intimate relationship which was aptly described to be ‘as close as lips and teeth’ by a Chinese saying. Sharing the same revolutionary ideology, China showed great sympathy towards Vietnam during the Indochina Wars (wars for independence from the colonial rule) and the Vietnam War against the United States by providing a great amount of financial assistance, weaponry equipment, and advisors.

However, after the ideological split between Soviet Union and China in the 1960s, Vietnam chose to stand with the former against China. Meanwhile, the Vietnamese government mistreated Chinese descendants residing in Vietnam through a series of economic and social reforms amid the escalating border conflicts. Mistrust peaked between the two countries after China started rapprochement with the United States in the early 1970s. The tensions ultimately led to China’s use of economic sanctions and military deployment to defend the Cambodian Khmer Rouge against Vietnam’s invasion, in the 1979 border war and skirmishes over islands in the South China Sea.

Not surprisingly, the relationship before the normalcy is labeled as zero-sum confrontation during this period.

The hostility did not diminish until both countries began to shift their focus from ideological fight to economic development. From 1978, China began its economic reform and opening up, while Vietnam's economic model followed closely to the Chinese's economic roadmap. For one thing, the changes in Sino-Soviet-U.S. relationships in the late 1980s forced Vietnam to evaluate its own relationship with China (Thayer, 1994). For another, the Vietnamese Communist Party needed to revitalise the country's economy for legitimate purpose after decades of war and conflicts. Therefore, Vietnam adopted Doi Moi in 1986, a renovation plan or policy with the goal of creating a socialist-oriented market. Thereafter, Hanoi began to focus on improving its relationship with China to begin its economic recovery.

After more than a decade-long estrangement, China and Vietnam agreed to normalise bilateral relations in 1991. Despite historical mistrust, Vietnam and China began to cooperate on border disputes and the Gulf of Tonkin (Beibu Bay) dispute. In 1999, the 16-word guideline, translated as 'long-term, stable, future-oriented, good neighbourly and all-around cooperative relations', defined a new relationship between China and Vietnam. With the conclusion of the land border treaty and cooperation on the exclusive economic zones (EEZ) and relevant negotiations concerning fishing in

Beibu Gulf, trade volume and investment increased, especially after the *Joint Statement for Comprehensive Cooperation* in 2000 was signed between the two countries.

China also sets an example for Vietnam on how to tackle economic reforms and political challenges as a socialist country. While China's domestic and foreign policies are geared to support economic growth, Vietnam is also looking north for economic experiences and opportunities. Vietnam's decision to join ASEAN also improved regional relations in 1995, paving the way for further regional cooperation. Economically, Vietnam is important in ASEAN's integration programme as it is one of the fastest economies among the members. It also serves as the gateway for China to export and import goods with the regional community. Chinese attempts to cultivate closer ties through economic cooperation are embraced by most Southeast Asian countries. Realising this, China has become proactive in reaching free trade agreement-CAFTA. China initiated the Early Harvest Programme (EHP) within the ASEAN framework as a goodwill gesture to ease ASEAN's concerns over the potential adverse impact from China's entry into the World Trade Organization (WTO). China carried out the EHP at the expense of its own local agriculture and plantation products. In 2007, China and Vietnam agreed to reach key cooperative projects and various economic and trade agreements by implementing the Master Plan on Sino-Vietnam Economic and Trade Cooperation.

In 2007, China proposed a Beibu Gulf Economic Rim (BGER), an idea first mentioned in the China-ASEAN agreement on a framework of concluding a regional free trade agreement. This proposal was part of China's Great Western Development strategy, which aims to boost its less-developed southwest provinces such as Guangxi and Yunnan. BGER has emerged as a new highlight of China-ASEAN cooperation, especially with Vietnam. Both countries are working to establish an 'economic corridor' from China's Yunnan Province to Vietnam's northern provinces. Air and sea links as well as a railway line have been open between the two countries, along with national-level seaports in the frontier provinces and regions of the two countries.

Meetings between the two countries' leaders are held annually. In 2008, China and Vietnam agreed to form a comprehensive strategic partnership.¹⁰⁰ In 2013, the two countries issued the Joint Declaration of Deepening Sino-Vietnam Comprehensive Strategic Partnership in the New Era. The two sides agreed on measures to enhance political trust as well as economic cooperation by sustaining trade balance, expanding financial and monetary connections, and improving resilience to financial risks. Vietnam responded actively towards China's One Belt One Road (OBOR) Initiative

¹⁰⁰ Zhongguo Tong Yuenan Guanxi, (Relationship between China and Vietnam), http://www.fmprc.gov.cn/web/gjhdq_676201/gj_676203/yz_676205/1206_677292/sbgx_677296/, accessed 1 August 2015.

and became the founding member of China's proposed *Asian Infrastructure Investment Bank* (AIIB), marking one of the milestones in the bilateral relations as China attempts to woo Vietnam and strengthen its economic influence in the region.

The birth of OBOR Initiative and AIIB coincides with China's economic reforms to rebalance its economy towards more sustainable growth. The domestic overcapacities inevitably drive its companies to invest abroad. With enormous financial assistance and provision, China has encouraged its companies to venture overseas. Amid rising domestic costs, the Chinese companies regard Vietnam as one of the popular destinations for industry transfer. Nonetheless, the environmental and societal impact of Chinese investments on Vietnam raised concerns and sharp criticism. So far, there is no systematic study on China's corporate social responsibility (CSR) performance in Vietnam. Due to the scarcity of reliable data and the reclusive nature of Sino-Vietnamese business, this chapter tries to provide a detailed investigation and explanation of the reasons for China's CSR weak behaviour.

The following discussion consists of four sections:

Section 2 provides an examination of economic relations between China and Vietnam. Thereafter, Section 3 provides an assessment of the impact of China's investment on Vietnam, especially in the CSR implementation. Section 4 proffers explanation of two independent variables in China-Vietnam's context. It will provide

the CSR background in Chinese contracting industry and explain the impact of the domestic institutional shortcoming on the contracting companies in overseas investment. It is followed by an analysis of CSR regime in Vietnam. Section 5 provides case studies of two Chinese projects in Vietnam including tests of the causal mechanism. Section 6 summarises key findings and concludes with a suggestion that a stronger state capacity from both countries is required for sustainable CSR implementation.

4.2. China's Economic Relationship with Vietnam

4.2.1. China-Vietnam Trade

With the restoration of normal diplomatic relations between China and Vietnam in 1991, bilateral trade volumes rapidly increased. Since 2001, China has enjoyed trade surplus against Vietnam and the trade imbalance has grown wider every year. In 2015, Vietnam imported USD 73,009.5 million of Chinese products, exporting only USD 21,633.3 of products to China (see Figure 4.1).

China's relatively advanced industrial capabilities account for its increasing annual trade surplus over Vietnam. Currently, China is Vietnam's largest trading partner. Unprocessed goods, such as crude oil and coal, account for a significant proportion of Vietnam's export to China. Chinese imports which are critical for Vietnam's industry include various essential materials for production: raw materials, machinery and equipment, steel, chemicals, oil, and fabrics. The different sectors of Vietnam's

exports and imports with China illustrate the vulnerability of Vietnam's economic dependence on China. China's leveraging Vietnam's vulnerability for political and security purposes may also rise in tandem with rising tension in the South China Sea. To ease Vietnam's concern over the growing imbalanced trade, China issued the Joint Communique with Vietnam in April 2015 when the General Secretary of Vietnam's Communist Party, Nguyen Phu Trong visited China. In this communique, the two sides agreed to boost bilateral trade in a more balanced and stable way, to complement the amended agreement on border trade cooperation.¹⁰¹ It is reported China even encouraged Chinese companies to increase imports of Vietnamese products and offer Vietnamese businesses 'all possible support in extending market share'.¹⁰²

¹⁰¹ Viet Nam, China issue joint statement, Vietnam News, <http://vietnamnews.vn/politics-laws/278187/viet-nam-china-issue-joint-statement.html#IpCvLk3wHrTKOYcR.97>, accessed 4 August 2015.

¹⁰² http://www.chinadaily.com.cn/world/2015-07/15/content_21286951.htm , accessed 4 August 2015.

Figure 4.1. Vietnam's import and export with China from 2002 to 2015 in USD million

Source: CEIC database¹⁰³

4.2.2. Investment

In tandem with the growing trade, the flow of Chinese investment to Vietnam is also increasing. China started to invest in Vietnam in the early 1990s with a local company from Guangxi Province bordering Vietnam to open a restaurant. From then, China's investment in Vietnam expanded on a large scale and across various sectors, especially after the previous president Hu Jintao pursued the Going Out policy (see Figures 4.2 and 4.3). The development of Chinese investment can be divided into three periods.

¹⁰³ <https://www.ceicdata.com/en/countries/china>, updated December 27, 2016.

In the first period (1991–2001), China played a minimal role in investing in Vietnam. During this time, China was seeking opportunities to reduce Western sanctions against its crackdown on students’ protest in Tiananmen Square in 1989. Meanwhile, China was conducting further economic reforms by experimenting with overseas investment, with Vietnam as one of the destinations. China’s investment in Vietnam was featured as small-scale and slow-paced. By the end of 2001, China had 110 projects with a registered capital of USD 221 million. There was only one sizeable project by China in the Linh Trung Export Processing Zone in Ho Chi Minh City with initial capital of USD 14 million. During this period, China’s investment mainly focused on meeting the daily production targets by partnering with Vietnamese enterprises.

Figure 4.2 China’s registered ODI in Vietnam from 2004 to 2015 in USD million

Source: Foreign Investment Agency (Ministry of Planning and Investment) of Vietnam, accessed 24 October 2016.

Figure 4.3 Number of China's registered ODI in Vietnam from 2004 to 2015

Source: Statistics of Foreign Investment Agency (Ministry of Planning and Investment) of Vietnam, accessed 24 October 2016

The second period (2001–2010) marked China's emphasis on economic cooperation with Vietnam and ASEAN countries. Under the Going Out policy, Chinese companies were encouraged to venture overseas to enhance their economic competitiveness and to secure energy resources. To do this, the Chinese state spares no effort in building up the competitiveness of its companies (predominantly Chinese SOEs) through financial preferential policies. Along with the trade relations, China's investments expanded to various sectors related to energy, construction,

transportation, real estate, textile, and so on. China's presence was seen in the industrial parks, and in the service industry such as hotel and tourism. Since January 2007 when Vietnam became a WTO member, the numbers of Chinese foreign direct investment (FDI) projects in Vietnam has increased sharply. In sum, the second period has witnessed China's rapid pace in broadening economic relations with Vietnam.

The third period (2011–present) witnessed China's dramatic increase in investment in Vietnam. In 2013, with Vinh Tan Power Plant BOT project topping USD \$2 billion, China's total capital value of outward direct investment (ODI) into Vietnam rose significantly. So far, compared with other countries such as South Korea and Japan, China's registered capital investment is not impressive. It even lags behind small economies like Singapore, Malaysia, Hong Kong, and Taiwan (see Figure 4.4).¹⁰⁴ Geographical proximity and institutional establishment of ASEAN have contributed to the burgeoning investment from other Southeast Asian countries such as Singapore and Malaysia. Developed countries such as South Korea and Japan invest in Vietnam to save cost. Most of their investments flow into the manufacturing sector (semiconductor, manufacturing, and heavy machinery).

¹⁰⁴ It needs to be noted that China is also said to use offshore financial centres such as the British Virgin Islands to invest overseas. A large amount of China's FDI goes to Hong Kong before venturing to Vietnam.

Figure 4.4 Major annual registered ODI capitals in Vietnam from 2001 to 2015 in USD million

Source: Author's analysis of data from CEIC Database, updated 27 December 2016.

Chinese ODI enterprises mainly invested in infrastructure, manufacturing, wholesale, real estate, motorcycles, construction, and science and technology (see Table 4.1). In terms of values, Chinese investment in Vietnam is most heavily concentrated in natural resources, followed by transportation-related infrastructure (see Figure 4.5). Table 4.2 provides a comparison of four countries' investment shares in Vietnam's major sectors. It is not difficult to find that China's ODI is mostly concentrated in the natural resource and labour-intensive areas.

Table 4.1 Number of Chinese ODI enterprises yearly statistics by sectors from 2006 to 2014

INDUSTRY	2006	2007	2008	2009	2010	2011	2012	2013	2014
Manufacturing	155	214	264	321	343	431	406	454	485
Wholesale, retail & repair of automobiles, motorcycles, motorcycles and other vehicles	7	14	16	23	35	59	48	57	69
Construction	7	13	20	24	23	31	32	34	33
Real estate	5	9	6	11	14	17	17	22	19
Science and technology	5	5	4	8	10	14	13	17	16
Mining & mineral processing	3	7	8	7	9	20	11	15	13
Shipping	5	5	5	8	9	9	10	15	12
Administrative & operational support services	3	4	2	4	3	4	3	5	11
Information communication technology	4	3	4	3	5	9	9	9	8
Agriculture, forestry & fisheries	4	4	7	8	5	4	8	7	5
Hospitality & restaurant		2	1	3	4	7	6	9	4
Finance, banking & insurance	2	1	1	0	0	4	4	4	4
Water supply & waste management	0	0	0	1		1	1	1	2
Health & social assistance	1	1	2	2	3	3	1	1	2
Other services	1	0	0	0	0	2	2	3	2
Production & distribution of electricity, gas, hot water, steam and air conditioning	0	0	0	0	0	0	0	0	1
Education and training	2	0	1	0	0	0	1	1	0
Arts, entertainment & recreation	0	0	0	1	3	1	2	0	0
TOTAL	204	282	341	424	466	616	574	654	686

Source: Author's calculation based on statistics of Census of Enterprises - Annual Survey of General Statistics Office, 2006–2014

Figure 4.5 Major Chinese ODI sector in Vietnam from 2005 to 2016 in million USD

Source: American Enterprise Institute ¹⁰⁵

Table 4.2 Investment shares in Vietnam's sectors

Country	Service Industry	Industry and Construction			Agriculture
		Manufacture	Natural Resource	Construction and Real Est	
China	18 %	10 %	50 %	20 %	2 %
Korea	25 %	20 %	28 %	25 %	2 %
Japan	15 %	30%	30 %	20%	5 %
USA	20 %	20 %	30 %	28 %	2 %

Source: General Statistics Office of Vietnam

4.3. Impact of Chinese Investment on Vietnam

Theoretically, foreign investment flows are expected to bring direct benefits to the host country. Examples include increases in capital flow, job creation, or national revenue. Foreign investment also creates spillover effects in management skills transfer, human resource improvement, and technology transfer. Owing to the lack of

¹⁰⁵ Chinese Investments & Contracts in Vietnam 2005-2016, http://www.aei.org/china-global-investment-tracker/?gclid=Cj0KEQjw4qqrBRDE2K_z7Pbvjo8BEiQA39AImf-EaPcbmg1lg9Baz_zBQHg0eDMjAKWY4BA5mVj0vz4aAILr8P8HAQ, updated 28 December, 2016.

capital, human resources, and technology, Vietnam needs foreign investment to support its shift from a rudimentary economy to an industrialised economy. To help Vietnam develop infrastructure, China provided technology transfer related to agriculture and aquaculture,¹⁰⁶ as well as electricity and telecommunication (Kubny and Voss, 2010).

4.3.1. Comparing Chinese CSR with Advanced Countries

Unlike other foreign investors, China's CSR best practices of its Chinese companies (if any) have not been identified. For instance, South Korea has vigorously implemented CSR activities in Vietnam. Since 2010, the Korean government has worked with the Vietnamese government to host CSR awards ceremony to encourage Korean companies to effectively implement CSR measures. For example, in 2015, Korean Trade-Investment Promotion Agency (KOTRA), Korea's Ministry of Trade, Industry and Energy (MOTIE), and Viet Nam's Ministry of Planning and Investment co-organised the ceremony.¹⁰⁷ Other than this, the Korean government was active in promoting its own CSR practice. In October 2015, the KOTRA and the Embassy of

¹⁰⁶ For example, Guangxi province of China provided the grape plantation technology to Lang Son, which suffered from disease caused by insects. With the technological assistance, the Lang Son farmers have been able to grow high quality grapes for making wine. Zhong Guo Jujiao: Zhongguo Xiang "Yidaiyiru"Yanxian Guojia Tigong Nongye Jishu Zhichi, (China Focus: China provides agriculture technology to countries bordering 'One Belt One Road'), 12 August 2015, Xinhua Net, http://news.xinhuanet.com/politics/2015-08/12/c_1116229354.htm, accessed 13 August 2015.

¹⁰⁷ http://bizhub.vn/corporate-news/south-korean-businesses-honoured_14418.html, accessed on 3 October 2016.

South Korea and Korean Chamber of Business held a press conference to discuss the CSR activities of South Korean enterprises.”¹⁰⁸

Similarly, the American Chamber of Commerce (AmCham) has its own CSR Award for US enterprises doing business in Vietnam. Also in 2015, Vietnam-based Japanese companies shared their experience in CSR performance at a CSR workshop organised by Central Institute for Economic Management (CIEM). Large Japanese companies including Daikin, Dai-Ichi, and Naturally-Plus dedicated a part of their websites to updates on CSR activities. Some Japanese companies such as Dai-ichi even received the Vietnam Prime Minister’s Award for outstanding business or social contribution. Such information or PR activities of Chinese companies on CSR have not been found. In fact, the Chinese information on its CSR practice in Vietnam is hardly disclosed on their company’s website.

China lags behind other countries’ contributions to the employment of Vietnam. In Figure 4.6, Chinese companies hired many Chinese labourers, with 40 per cent of Chinese against Vietnamese in terms of labour. It reinforces the empirical observation that China’s investments mainly concentrate on labour-intensive sectors. Chinese investors employ only 20 per cent of Vietnam’s workforce with degrees and above,

¹⁰⁸ ‘South Korea Big on CSR’, <http://vneconomictimes.com/article/business/south-koreans-big-on-csr>, accessed on 3 October 2016.

far less than many other countries such as United States that employ 90 per cent of local people.

Figure 4.6 Labour shares of four countries in Vietnam

Source: Ministry of Labour-Invalids and Social Affairs (MOLISA), accessed 28 October 2016.¹⁰⁹

Figure 4.7 shows a comparison of law compliance among four countries in Vietnam. China has a much lower level of compliance, with almost 60 per cent of its investment below the law requirement. Japan outperforms the rest with nearly zero case of violating the local law.

¹⁰⁹ Translated by a Vietnamese student

Figure 4.7 Shares of law compliance of four countries in Vietnam

Source: MOLISA, accessed 28 October 2016.¹¹⁰

China's awareness of environmental protection lags far behind three other countries (with 70 per cent of Chinese investors' implementation enforced by the Vietnamese government). On the contrary, the other three countries voluntarily implement relevant actions and show a much higher awareness of environmental protection (see Table 4.3).

Table 4.3 Awareness of foreign companies in environmental protection in Vietnam

Country	Commitment	Environmental Protection	
		Voluntary	Enforced

¹¹⁰ Translated by a Vietnamese student

		Implementation	Implementation
China	100%	30%	70%
Japan	100%	80%	20%
Korea	100%	70%	30%
United States	100%	80%	20%

Source: Ministry of Natural Resources and Environment (MNRE), accessed 29 October 2016.¹¹¹

4.3.2. Negative CSR Implementation by Chinese Companies

Compared to the other active investors in Vietnam, the impact of China's investment on Vietnam's socioeconomic development is comparatively insignificant. Chinese companies tend to violate laws and regulations in Vietnam. Violations committed by Chinese companies, such as hiring Chinese workers without work permits, failing to provide adequate occupational safety and health, causing extreme environmental pollution, etc., have been recorded and penalised by Vietnamese authorities. Data from the Finance Committee and the Congressional Budget announced earlier also showed that, as of 2010, 90 per cent of Vietnam's engineering, procurement, and *construction* (EPC) projects (involving design, procurement, construction, to commissioning and handover of the project) on oil and gas, chemicals, power, and textile needles are implemented under the turnkey method by Chinese contractors. Vietnam has to use Chinese contractors, technology, equipment, and services in order

¹¹¹ Translated by a Vietnamese student

to receive China's concessional loans (Hiep, 2013). Chinese-funded projects in Vietnam, either by Chinese FDI enterprises or EPC contractors, face three major CSR-performance problems: (i) unsatisfactory labour practices, (ii) substandard environment protection, and (iii) weak governance (see Table 4.4).

Table 4.4 Negative CSR implementations by Chinese companies

Project Name	Company Name	Complaints	Response from the Company
Sky Train Railway Cat Linh – Ha Dong Project	The Sixth Engineering Bureau of China Railway Group Limited (Bureau Six Group)	Labour code violations; unsatisfactory occupational and traffic safety ¹¹² ; delay of the project; capital increases during construction ¹¹³	No positive response, later responded with apology, no compensation, repeated accidents
Hanoi – Hai Phong Highway Project	Shandong Hi-Speed Road and Bridge Group Co., Ltd; China Guangzhou International Economic & Technical Cooperation Company; Guangdong Provincial ChangDa Highway Engineering Co., Ltd	Delay of the project; capital increases during construction ¹¹⁴	Lip-service commitment without much progress
Noi Bai – Lao Cai Highway Project	Guangxi Road & Bridge Construction Co. Ltd.	Its subcontractors hire farmers and low skilled workers for complex construction jobs; controversies over site clearance compensation also lead to a protest by hundreds of locals ¹¹⁵	No information
Tay Nguyen Bauxite	China Aluminium International Engineering Corporation	Environmental degradation, soil degradation, threat to ethnic population and cultures, local	No information

¹¹² Hoang Manh, ‘Cat Linh-Ha Dong railway: Many violations of Chinese main contractor detected’, www.dantri.com.vn/viec-lam/duong-sat-cat-linh-ha-dong-phat-hien-nhieu-sai-pham-cua-tong-thau-trung-quoc-20151002154352534.htm, accessed 14 October 2016.

¹¹³ ‘10 largest projects by Chinese contractors’, www.kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/10-du-an-lon-cua-nha-thau-trung-quoc-tai-viet-nam-2989807.html, accessed 14 October 2016.

¹¹⁴ Ibid.

¹¹⁵ Ibid.

Mining Project	(CHALIECO)	population displacement, influx of Chinese workers ¹¹⁶	
Lao Cai Cast Iron and Steel Plant Project	Kunming Iron and Steel Group Co. Ltd	Slow progress of the project; lack of responsibility in supervising its subcontractors, in which one of them ran away and left a debt of VND 5 billion (USD 224,000) to many individuals and organisations ¹¹⁷	Kunming company evaded the responsibility to the main investors
Duyen Hai Power Plant Project	Dongfang Electric Corporation	Environmental pollution of coal ash emission; alter waste management technology without notice ¹¹⁸ ; loud noises ¹¹⁹	No information
Song Bung 4 Hydropower Project	Sinohydro Power Corporation	Illegal employment of Chinese workers without valid working permits. ¹²⁰	Paid VND 570 million (USD 25,500) in 2013
Song Bung 2 Hydropower Project	ECIDI-HydroChina Huadong Engineering Corporation	Insufficient occupational safety and local safety measures; casualty and missing people due to the project accident in September 2016 ¹²¹	No information

¹¹⁶ ‘Tay Nguyen succumb to bauxite mining’, www.tuoiitre.vn/tin/chinh-tri-xa-hoi/moi-truong/20081023/tay-nguyen-se-chet-vi-khai-thac-boxit/284505.html, accessed 15 October 2016.

¹¹⁷ ‘10 largest projects by Chinese contractors’, www.kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/10-du-an-lon-cua-nha-thau-trung-quoc-tai-viet-nam-2989807.html, accessed 5 October 2016.

¹¹⁸ ‘Why locals in Tra Vinh are worried?’, www.tienphong.vn/cong-nghe/vi-sao-dan-tra-vinh-lo-lang-ve-nha-may-nhiet-dien-duyen-hai-1057316.tpo, accessed 1 November 2016.

¹¹⁹ ‘The South West and the sorrows of coal power plant’, www.motthegioi.vn/kinh-te-c-67/mien-tay-va-noi-lo-nha-may-dien-than-43337.html, accessed 4 October 2016.

¹²⁰ ‘10 largest projects by Chinese contractors’, www.kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/10-du-an-lon-cua-nha-thau-trung-quoc-tai-viet-nam-2989807.html, accessed 14 October 2016.

Vinh Tan 2 Coal Power Plant Project	Shanghai Electric Group	Constantly serious environment pollution of coal ash diffusion prompted a 30-hour protest by local community in April 2015 ¹²²	The power plant project was previously fined VND 1.5 billion (USD 69,510) in 2014; no progress afterwards
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Source: Author's compilation from various media resources

¹²¹ '24 people gone missing as Chinese built pipes busted', www.bbcviet.com/vo-ong-nuoc-thuy-dien-trung-quoc-trung-thau-24-nguoi-mat-tich.html, accessed 13 October 2016.

¹²² 'Pollution at Vietnam power plant persists despite public outcry', www.thanhniennnews.com/society/pollution-at-vietnam-power-plant-persists-despite-public-outcry-58658.html, accessed 14 October 2016.

➤ **Unsatisfactory Labour Practice and Violation of Law**

Vietnamese media has been complaining about China's labour practice and the impact brought to Vietnam.¹²³ The Chinese contractors often bring Chinese migrant workers to Vietnam because they have the skills to operate and repair heavy machines. For example, several Chinese projects and enterprises, such as Sichuan Huashi, did not register to hire Vietnamese workers but bring in Chinese workers. Others such as MCC19 (a member of Metallurgical Corporation of China Limited) employed Chinese workers without applying for their work permits.¹²⁴ In the case of Vinh Tan Power Plant Project, the Chinese company even hired those without passports.¹²⁵ Based on Nanyang-VNICS research on Chinese EPC and official development assistance (ODA), majority of Chinese workers did not hold a valid work permit: 1,058 out of 1,719 workers in the power plant sector; 769 out of 919 workers in the mineral- mining sector; and 513 out of 1708 workers in the petroleum sector.¹²⁶ These illegal Chinese workers are brought in to overcome language barriers, workplace distrust, and unskilled labour (Hiep, 2013).

¹²³ 'Why to hire Chinese workers?', www.nld.com.vn/thoi-su-trong-nuoc/sao-phai-tuyen-lao-dong-trung-quoc-20151122211349638.htm, accessed 12 October 2016.

¹²⁴ VN Express, 'More than 300 Chinese workers penalized due to work permits lack', www.vnexpress.net/tin-tuc/thoi-su/hon-300-lao-dong-trung-quoc-bi-phat-vi-khong-co-giay-phep-3102507.html, accessed 14 October 2016.

¹²⁵ 'Management of overflowing Chinese workers', www.nld.com.vn/thoi-su-trong-nuoc/quan-khong-xue-lao-dong-trung-quoc-2016040322553724.htm, accessed 12 October 2016.

¹²⁶ 'Chinese Engineering, Procurement and Construction (EPC) and Official Development Assistance (ODA)' (Nanyang & Vietnam Institute of Chinese Studies, 2016), p.2

It is also believed that some illegal migrant workers raised social security concerns by their involvement in prostitution, gambling, and smuggling within the Vietnamese civil society (Morris, 2015). According to the VNICS 2014 research:

“While migration flows today often go from poor countries to more developed countries with higher income, the presence of thousands of Chinese workers in ‘special areas’ in Vietnam, a country with income much lower than those of China, is very unusual and confusing.”¹²⁷

The frequent occurrence of occupational accidents during construction suggests that Chinese companies operating in the construction sector fail to implement adequate occupational safety and health measures. Several notorious cases include accidents at the Sky Train Railway Cat Linh-Ha Dong Project (EPC contractor Bureau 6 Group of China Railway Engineering Corporation), Thuan Hoa Hydropower Plant Project (EPC contractor Zhejiang Provincial No. 1 Water Conservancy & Electric Power Construction Group)¹²⁸ and Song Bung 2 Hydropower Project (EPC contractor ECIDI-HydroChina Huadong Engineering Corporation).

¹²⁷ ‘Chinese FDI to Vietnam: 20 years looking back’, www.vnics.org.vn/Default.aspx?ctl=Article&aID=516, accessed 15 October 2016.

¹²⁸ ‘Accident at Thuan Hoa Hydropower Project: 4 workers killed’, www.baotintuc.vn/xa-hoi/tai-nan-tai-thuy-dien-thuan-hoa-4-lao-dong-trung-quoc-thuong-vong-20150121191831222.htm, accessed 15 October 2016.

Poor labour compliance is another issue. To cut costs, Chinese companies in Vietnam tend to pay lower-than-average wages to the Vietnamese workers and provide a much lower level of training. According to VNICS 2014 research and some media reports, local workers encounter discrimination within the Chinese companies.¹²⁹ Violations of regulations on minimum wage, social insurance, and labour contracts by companies such as Bureau 6 Group of China Railway Engineering Corporation at Sky Train Railway Cat Linh-Ha Dong Project suggest that Chinese companies generally lack compliance in their operation. According to VNICS, “Chinese companies do not establish labour unions, which violate Vietnam's Investment Law, while labour unions are to protect the rights of workers.”¹³⁰

➤ **Substandard Environment Protection**

The nature of China's investments is generally exploitative. Chinese investors often focus on resource-extractive industries without much CSR planning or environmental impact assessment. According to VNICS,

“China's investment to Vietnam is not in line with Vietnam's development planning of economic sectors and economic zones. Chinese FDI does not address agriculture, forestry and fishery sectors, indeed focuses on the

¹²⁹ ‘Facts about the Hai Phong coal-fired power plant project in Vietnam’, www.sekitan.jp/jbic/wp-content/uploads/2015/08/Facts-about-the-Hai-Phong-coal_FINAL.pdf, accessed 15 October 2016; Chinese FDI to Vietnam (2016).

¹³⁰ Ibid.

exploitation of Vietnam's natural resources. This investment structure is unfavourable, because the extraction and processing of ores in Vietnam to produce raw materials (coal, tin, etc.) for Chinese market does not bring any economic benefits to Vietnam, offers very little development, and causes adverse impacts on the environment and sustainable development of Vietnam.”¹³¹

On the other hand, overseas Chinese companies lack technology transfers and management know-how skills and often select projects that need limited research and development. Under such circumstances, Chinese investors hardly contribute to the technological advancement of Vietnam's industries. It is reported that some technologies used by mines operated by the Chinese companies are prohibited in China.¹³² Owing to the lack of expertise in mining, many Vietnamese companies still choose to partner with China. To the disappointment of the Vietnamese, the Chinese contractors do not purchase equipment and machinery from the local suppliers. They prefer to import low-quality equipment from China because the quality matches Vietnam's low-level mining operations. It is also easier for the companies to seek maintenance from China than from Japan or Europe.

¹³¹ Ibid.

¹³² 'Paradise of pollution from Chinese FDI', www.thesaigontimes.vn/147376/Thien-duong-o-nhiem-tu-FDI-Trung-Quoc.html, accessed 15 October 2016.

➤ **Weak Governance**

Chinese companies have been criticised for their negligent management of their subcontractors. Chinese EPC was also criticised for sloppy management of subcontractors. For example, EPC contractor Kunming Iron and Steel Group Co. Ltd (Lao Cai Cast Iron and Steel Plant Project) was criticised for its denial of responsibilities when a subcontractor (Jiangsu Construction Engineering Group) ran away without paying back debts of approximately VND 5 billion (USD 224,000). Chinese companies also bid record-low prices in order to secure the contract. Upon securing the contract, the Chinese companies will alter the contract terms and delay construction.

The Chinese government issued several guidelines and directives to ensure that Chinese companies comply with CSR standards.¹³³ Several companies have taken action to respond to community demands when their violations have been detected. However, most actions are ad-hoc; systematic and long-lasting initiatives are needed to improve CSR performance.

4.4. Explanation of Two Independent Variables

4.4.1. Domestic Institutional Shortcoming in Construction Sector

➤ **Insufficient CSR Infrastructure**

¹³³ Such as MOHURD, Zhufang Chengxiang Jianshebu Guanyu Tuijin Jianzhuye Fazhan he Gaige de Ruogan Yijian, (Several Opinions on Promoting Development and Reform in the Construction Industry), 1 July 2014, accessed 8 September 2014.

Since the 1978 economic reform, China's construction industry has significantly boosted the economy. The government strongly supported the construction sector over last few decades, pushing China to become the leading country in international construction industry. According to RICS Research, the total revenue of three of China's largest construction and contracting companies surpassed the total amount of the revenue of traditional companies from the United States, Japan, Germany, France, and the United Kingdom, making these three companies the largest leading companies in the world (Ding and Smith, 2012).

At the beginning, the government introduced basic regulations while gradually giving the companies some degree of flexibility to operate as commercial entities. For decades, there was notable progress in reforming aspects of competitive bidding, operational autonomy, and commercial behavior within these companies. Since then, China's construction industry has become one of the most liberalised yet least regulated sectors in the national economy. There are several factors explaining the behavior of these Chinese construction companies.

First, ownership reforms have created unfair competition though companies of all kind are subject to market forces and open competition. During the economic reform, companies adapted to different types of ownership: state-owned, urban collective owned, rural collective owned, and private owned. Although state-owned enterprises

(SOEs) in the construction sector still face many planned-economy problems related to poor management, excessive labour force, and bureaucratic intervention, they enjoy preferential treatment from the government through political connections. In the modern corporation, the business autonomy is generally achieved through establishing a board of directors and shareholders. Companies are supposed to maximise economic profits and be accountable to the board. In Chinese bureaucracy, SOEs, (particularly the central SOEs) are embedded in institutions where the SOEs managers are incorporated into a state cadre system. Accordingly, the senior-level managers in the construction SOEs hold administrative ranks. Take China Railway Engineering Corporation (CREC) for example, it has a vice-ministerial rank in Chinese bureaucratic system. With this political connection, Chinese SOEs find it easier to obtain policy and financial support in obtaining overseas projects.

Unlike SOEs, the urban and rural collectives as well as the private companies rapidly developed because they are largely market oriented and their profits are tied to the income of the staff. However, their output quality is relatively poor and the professional and managerial levels are lower than those of SOEs. This can be explained by their lack of advanced technology, access to credit, equipment, and well-educated personnel needed to improve their quality of construction, especially those private ones. Inadequate construction credit is another major constraint in the non-SOEs companies. While a number of national banks are in the business of project

financing, this facility is generally available to large SOEs. Short-term financing is sometimes available to construction enterprises from local banks but the terms are usually too costly. Most of enterprises have to operate without access to credit facilities. Therefore, contractors usually face serious payment problems due to shortage of funds for the project entity, even at the early stage of implementation.

It is found that Chinese SOEs recognise the value of political connections and relationships in securing projects. Some of them receive projects by direct assignment from the government (Wang, Hadavi and Krizek, 2006). Political influence is a competitive advantage for bureaucracy-connected construction SOEs (Liou, 2013). Therefore, bureaucratic ties help construction SOEs' obtain projects, particularly those initiated by the government.

Unlike SOEs, urban-rural collectives and private companies rely strongly on 'competitive bidding'. In the competitive bidding system, relationship is very important for obtaining government projects. When interviewed, some contracting companies admitted that it is almost impossible to obtain a contract without relationship, regardless of the bidding price. Connections with the government can help a firm pass the qualification assessment and bribe government officials in exchange for favours. Governmental officials also seek favours for their own benefit through the bidding process. Both construction SOEs and non-SOEs compete in

bribing government officials who issue project contracts. With their superior bureaucratic connections and financing access, these construction SOEs can easily secure projects.

Second, the bidding system has created loopholes for both the business and government mainly in two ways: unhealthy bidding behaviour and corruption opportunities. Since 1984, China has been pursuing project bidding for contracts. A competitive bidding system was introduced into the Chinese construction industry to supplement and gradually replace the traditional assignment system (Shen and Song, 1998). The introduction of the bidding system represents a significant departure from the project allocation system in which companies take projects which are determined by pricing and other market forces. The adoption of the Bidding Law in 1999 during the Ninth National People's Congress popularised the competitive bidding system across various sectors: construction and implementation of projects, design procurement, labour force supply, and equipment supply. On the one hand, the introduction of the bidding law has injected price liberalisation in the industry. On the other hand, the establishment of bidding system has not resulted in more efficient management practices or a more transparent market. Rather, construction SOEs benefited from conditions of unfair competition and corruption.

Before the reform, Chinese companies generally relied on the Standard Price Book (Standard). After the pricing system reform, project pricing was no longer pegged with the Standard as a mandate. Accordingly, companies usually price their projects based on the Standard and the market. Compelled by the fierce competition, most of the bidders have to lower their bidding prices and reduce their profits which may subsequently force them to default on the workers' wages and suppliers' payments, lower the quality of products or services, lodge more claims, and invest less in CSR initiatives.

Therefore, the competitive bidding system motivates firms to adopt irresponsible business strategies. Some of the SOEs increase their own benefits at the costs of the subcontractors they hire. By virtue of their bargaining power in the bidding process, Chinese SOEs often force down the price. In many cases, they publicise in advance the price they are willing to pay and ask for a lower bidding figure. Consequently, the subcontractors often face serious financial issues. Without an appropriate financing channel, many contractors would borrow at high interest from banks, employ unskilled workers, and default on work safety or health issues. Sometimes, the subcontractors have to delay the payment to the labourers due to shortage of capitals due to underbidding. State subsidy is provided mostly to the SOEs. Chinese contractors tend to use unreasonable bidding prices below operating costs to compete in the international market, and this excludes other foreign companies. Such a

situation is considered one of the critical problems facing the industry in China and abroad.

Third, in the absence of efficient or clearly defined regulations, the Chinese construction industry is still largely plagued by inefficient performance as a result of fierce competition for market shares. After the liberalisation of the market in the construction industry, most enterprises invest with short-term goals driven by quick profit motivation. The competition for market share exists in all kinds of companies at three levels: among SOEs, among SOEs at different levels, and among subsidiary units within a conglomerate SOE.

In the competitive market, large national companies like China Railway Corporation face challenges from other state firms within the same category. For instance, China State Construction Engineering Corporation Limited (CSCES), which also has a vice-ministerial rank, enjoys similar technological capabilities and bureaucratic leverage to compete for the same projects. Given that the senior management of these construction SOEs comprises important political figures who desire promotion, they need to compete to secure the bid. In this regard, they actively seek projects to expand their market share despite not making any profit. As a result, state firms compete with one another for contracts and resources through bribery and political connections with the government.

Many government agencies at the local level have their own construction departments. Each of these construction SOEs would lobby its principal bureaucratic actors for preferential treatment: priority for market entry, discount prices, and guaranteed construction projects. By the same token, relationship with the local government and bidding price would determine the possibility of winning the project.

The competition for market share expansion also exists among SOEs' subsidiaries. As the competition system was introduced in the construction industry, subsidiaries which are forced to sustain excessive personnel expenditure face a difficult situation. To find a solution, these subsidiaries try to maximise their project contracts whenever possible without a consistent business strategy or coordination with other subsidiaries. Therefore, they actively seek resources and connections with the parent company through bribery or curry favor to win contracts and secure resources to fulfill their contracts.

➤ **Overlapping Supervision Layers but Fragmented Coordination**

Reform of China's construction industry created an institutional environment that shapes the behaviour of the business actors abroad. Overlapping and unclear roles of different governmental bodies weakened the supervision of construction activities.

Many government bodies are involved in regulating the construction industry and managing the activities, undermining the governance of the construction industry.

The major parties involved are as follows.

- The Ministry of Commerce of the Government of China (MOFCOM) is responsible for assessment and approval of overseas contracting projects by the Central SOEs. Provincial level of commerce department is in charge of non-CSOE's application.¹³⁴ MOFCOM also undertakes general administration roles for the Chinese construction enterprises abroad.
- The Ministry of Housing and Urban-Rural Development (MOHURD) is responsible for the administration and supervision of construction working including issuing licence, requirements, designs, tenders, and bidding procedures.
- The Ministry of Transportation (MOT) is responsible for the administration and planning of construction maintenance and quality control. MOT also supervises the railways' administrative functions after the former Ministry of Railways (MOR) was abolished in 2013.

¹³⁴ MOFCOM, Duiwai Chengbao Zige Shenpi, (Assessment and Approval on Overseas Contracting Projects), <http://cbgczg.mofcom.gov.cn/>, accessed 21 September 2014.

- The *National Development and Reform Commission* of the People's Republic of China (NDRC) is responsible for macroeconomic planning for the construction industry.
- The Ministry of Environmental Protection of the People's Republic of *China* (MEP) is responsible for environmental protection, administration, and supervision during the construction process
- The State Administration of Work Safety (SAWS) is responsible for work safety supervision in construction projects.
- China Construction Industry Association (CCIA) functions as an NGO in China to regulate the conduct of companies, to strengthen industrial self-regulation, and to promote the strong development of the construction industry.¹³⁵
- Each municipality also has a control office to regulate project quality in accordance with their own specifications.

From the list above, it is obvious that construction industry involves interests of multiple governmental agencies. However, there is a lack of a coordination mechanism for these government agencies. Effective governance of China's regulatory agencies in the construction industry is limited by various institutional

¹³⁵ China Construction Association Industry, <http://www.zgjzy.org/About.aspx>, accessed 30 September 2014.

factors (Pearson, 2005). The overlapping but fragmented Chinese regulatory system is accompanied by mixed responsibilities, poor coordination and communication, and weak enforcement of laws and regulations. Chinese construction companies are also confused over which governmental bodies they ought to report to.

Chinese bureaucratic ranking system in the SOEs also places barriers to effective coordination and supervision among governmental bodies. Certain central SOEs enjoy the same level of bureaucratic ranking in the agencies of ministries. For example, theoretically, China International Contractors' Association, a body with close links to the Ministry of Commerce, has regulatory powers. However, it has no power to act on its supervisory role because its ranking is lower than vice-ministerial level SOEs.

At the organisational level, the parent SOEs companies find it difficult to supervise business activities among its subsidiaries. Almost all of the subordinate units of SOEs have organisational predecessors that can be dated back to days of the planned economic system. Because of this, these units are even more senior than the headquarters, considering experience and duration of the bureaucratic organisations. Weak horizontal coordination directly leads to internal strife among subordinate units that compete for construction projects (Liou, 2013). Moreover, given that certain subsidiaries have closer political connections with the government, the parent

company find it institutionally difficult to enforce the internal supervision mechanism. Therefore, defiance is common within the organisation.

The regulations and standards are prescriptive but the punishment mechanism for non-compliance and violation are still ambiguous and weak. Owing to the scarcity of effective laws and regulations, many Chinese companies tend to turn a blind eye to the safety and health issues in the project, the most serious problems in Chinese construction industry. The internal safety supervision is relatively weak among Chinese companies because economic performance often takes priority over safety performance. The fierce competition with other rivals for certain projects makes CSR implementing very costly to the contractors. Some companies do not even have a safety management department or office.

While significant progress has been made during the commercialisation of the construction industry, the reform process remains inconsistent. As long as China's construction legal regimes are not unified, problems related to bid collusion, price rigging, re-contracting, affiliated contracting, and illegal subcontracting will prevail.

➤ **CSR Reporting in China's Construction Industry**

For one thing, CSR reporting in Chinese construction industry seriously lags behind other Chinese industries. In fact, Chinese construction industry has the worst record of CSR performance within China and abroad. According to the *People's Daily*, in 2013, there are over 70,000 units of companies in China's construction industry. Nevertheless, only 64 companies issued their corporate social responsibility reports.¹³⁶ Many construction companies lack a proactive attitude toward CSR disclosure. There are several reasons for this situation. First of all, market competition resulted in an unhealthy bidding system that forces construction companies to reduce costs in meeting out CSR standards, such as environmental assessment and community development programme. Second, unclear regulation or even legislation for the Chinese construction companies to comply with the CSR reporting creates loopholes. In 2013, China Construction Industry Association (CCIA) issued the Notice of Directing Opinions on implementing CSR by Construction Companies.¹³⁷ In this Notice, however, CSR adoption is voluntary and lacks governmental legislation. Third, China lacks a domestic environment where NGOs or civil society can function as a watchdog for the government to monitor business activities of the construction companies, especially the ones closely related to their daily life.

¹³⁶ Sino-Swedish Corporate Social Responsibility Website, MOFCOM, 17 June 2013, <http://csr.mofcom.gov.cn/article/csrnews/12014/201402/20140200498601.shtml>, accessed 12 March 2016.

¹³⁷ Guanyu Yinfu 'Guanyu Jianzhuyi Qiye Lvxing Shehui Zeren de Zhidao Yijian de Tongzhi', (On Issuing the Notice of printing the Notice on Implementing CSR of the Construction Company), <http://csr.mofcom.gov.cn/article/policies/ind/201603/20160301269368.shtml>, accessed 4 April 2016.

Chinese CSR reporting also lags behind the international standard. It lacks CSR strategic planning and systematic management. Through the CSR reporting in several Chinese SOEs, the value of social responsibility stays at the level of cognition of philanthropy and charity, rather than that of sustainable development. Moreover, there is no independent third party to assess the extent and accountability of the information provided the companies; nor do they have a reporting system for the subcontractors. Transparency is a problem within Chinese CSR reporting as the bidding process is usually opaque and prone to corruption.

Chinese companies operate in a murky and unfair domestic institutional environment where they face fierce competition with all types of companies. Owing to the domestic institutional shortcomings, China's construction industry is plagued with low-quality buildings, delayed project completion, and corrupted bidding practices. Although Chinese state has begun to legislate the laws related to construction industry, the conflict between the rapid development and poor construction governance remains unresolved. The path to effective governance of China's construction industry is paved with many challenges: pollution of the environment, lack of safety of infrastructure environment, inadequacy of safety training and education, project management, among others.

4.4.2. CSR regime in Vietnam

There are three levels to evaluate the CSR regime in Vietnam: the political and legal framework for Vietnam's CSR establishment, local CSR networks, and the interaction between the two.

Vietnam is heavily influenced by Chinese culture characterised by a strong sense of collectivism, concept of relationship, and submission to authority. These cultural factors may contribute to the low perception of CSR among Vietnamese (Nguyen and Truong, 2016). Doi Moi became a milestone for Vietnam's political and economic development. To turn away from the existing command economic system, the Vietnamese government decided to implement an export-led, market-based economy. After the Doi Moi reform of 1986, Vietnam's economy has been integrated into the global market with the support of SOEs and privately-owned enterprises. With China's economic reform in mind, Vietnam quickly introduced the Foreign Direct Investment (FDI) Law of 1987. The FDI legislation attracted new investment and provided market access for Vietnam's exports. To attract more foreign investments, the Vietnamese government aims to create not only a business-friendly environment for business operations within the country but also to construct a legal framework to enhance sustainability of the economy. The latter entails environmental protection, as well as transparency in governance and labour issues. The admission of Vietnam into the WTO in 2007 was a further step in this direction.

Several drivers pushed for the introduction and implementation of CSR in Vietnam. First of all, Vietnam's open-up economy requires it to implement codes of conduct in the global chain (Nguyen, 2007). Western MNCs are the main proponents for spreading the CSR concept in Asia, including Vietnam. These companies gradually developed the code of conduct and standards of business culture. Recognition of the benefits of CSR implementation in Vietnam to gain access to the international market has spurred CSR implementation. Western companies such as Unilever and their associations such as the American and European Chambers of Commerce have pressed the Vietnamese government to establish a friendly business environment and address issues on labour, environment, and human rights. The Vietnamese Business Links Initiative was established in 1999 when a UK government report on the footwear industry in Vietnam was issued. This report led to consultation by the International Business Leaders Forum (IBLF) with various stakeholders, including the Vietnam Chamber of Commerce and Industry, representatives of the Vietnamese, the UK government, companies such as Nike, NGOs, and others (Segerlund, 2013).

In 2003, the CSR concept was brought to the Vietnamese government by the World Bank through one of its programme Strengthening Developing Country Governments' Engagement with Corporate Social Responsibility. This programme emphasised the importance of public sector in CSR promotion in developing

countries (Twose and Rao, 2003). Since then, more actors from individual companies or business associations such as the Vietnam Chamber of Commerce and Industry, Leather Producers (LEFASO), and the Federation of Professional Textile Manufacturers (VISTAS) are involved in the CSR. Worker representatives are institutionalised through the Federation of Labour Unions, the only official organisation for workers, and are in effect part of the government.

Second, a long-term policy of poverty alleviation and economic growth, coupled with a concern for the sustainable growth, has put the Vietnamese government on the path to CSR implementation. With the recognition of CSR importance in the country's competitiveness, the Vietnamese government has made several sustainability policies since the late 1980s.

In 2004, Vietnam adopted the Strategic Orientation for Sustainable Development known as Vietnam Agenda 21, which identifies 19 prioritised areas in the economic, social, and environmental aspects of CSR.¹³⁸ Thereafter, the National Council on Sustainable Development was established by the Prime Minister's Decision No 1032 in 2005. The country has also passed CSR legislation that is largely in line with

¹³⁸ Socialist Republic of Vietnam, Implementation of Sustainable Development: National Report at the United Nations Conference on Sustainable Development (Rio+20)
<https://sustainabledevelopment.un.org/index.php?page=view&type=400&nr=852&menu=1515>,
accessed 28 October 2016.

international conventions on issues such as labour code. According to the International Labour Organisation (ILO), Vietnam's Labour Code is more advanced than other countries in ASEAN.¹³⁹ It even set up Prime Minister's Award for rewarding corporations that has made outstanding contributions in business and society. The Vietnamese government cooperated with international organisations to raise CSR standards. For example, the United Nations Industrial Development Organisation (UNIDO) joined forces with the Vietnamese government to establish the Vietnam Cleaner Production Centre, which helps Vietnamese enterprises install environmental management systems and adopt green procurement practices.

Third, the civil society in Vietnam has contributed to CSR adoption in Vietnam's ruling. Since 1990s, the civic associations, including foreign associations, have increasingly occupied the public sphere with greater managerial autonomy and mobilisation capability among their constituencies, due to the increased economic openness, political pluralisation, and enhanced civic engagement. The Vietnamese government began to recognise the role of NGOs and the benefits brought to improve the governance of the society. Local NOGs begin to play an increasing role in CSR institutionalisation by networking with Western transnational NGOs. For example,

¹³⁹ Comparative Assessment Report on Labor Legislation and Corporate Social Responsibility (CSR) Policies in Vietnam, http://www.globalcompactvietnam.org/upload/attach/CSR%20and%20Labour%20in%20Vietnam_EN.pdf, accessed 28 December 2015.

the Vietnam Chamber of Commerce and Industry (VCCI) is an active NGO representing the business community, employers, and business associations from all economic sectors in Vietnam.¹⁴⁰ It is involved in various CSR initiatives. For instance, it collaborated with Transparency International, Embassies of Sweden and Britain, and IBLF to launch the Integrity and Transparency in Business Relationships Initiative for Vietnam.¹⁴¹ It also established the Vietnam Business Council on Sustainable Development (VBCSD) with SNV Netherlands Development Organisation in 2009. Similar to VCCI, the Vietnam General Confederation of Labor (VGCL) is also an NGO (Vietnam's largest trade union). Branches of VGCL are gradually taking action on CSR regarding the labour rights with *International Monetary Fund* (IMF) and other international organisations.

¹⁴⁰Introduction to the Vietnam Chamber of Commerce and Industry, <http://vccinews.com/aboutvcci.asp>, accessed 15 October 2016.

¹⁴¹ Integrity & Transparency in Business Initiative for Vietnam, Vietnam Breaking News, 22 March 2010, <https://m.vietnambreakingnews.com/2010/03/integrity-transparency-in-business-initiative-for-vietnam/>, accessed 15 October 2016.

Table 4.5 CSR timeline in Vietnam

Year	Adoption	Organisation
1998	Vietnam Cleaner Production Center (VCPC)	Ministry of Education and TRADING, UNIDO, Institute for Environmental Science and Technology, Swiss State Secretariat for Economic Affairs
1999	Vietnam Business Links Initiative (VBLI)	VCCI, IBLF
2005	CSR Award for Businesses	VCCI
2006	Factory Improvement Program	VCCI, Vietnam Cleaner Production Center, ILO
2006	Code of Conduct	Action Aid Vietnam, Vietnam Leather and Footwear Association and Leather and Footwear Association
2007	UN Global Compact Network Vietnam (GCNV) ¹⁴²	VCCI
2008	Better Work Programme	ILO, IFC
2009	Vietnam Business Council for Sustainable Development (VBCSD)	VCCI, UICN, SNV Netherlands Development Organisation
	Vietnam Forum on CSR	Actionaid, Centre for Development and Integration (CDI)

Source: Author's collection based on (Brohier & Anakout, October 2009)

To comply with international standards, Vietnam has made attempts to improve its legal and regulatory system. However, there are numerous challenges hindering CSR building in Vietnam.

First, corruption undermines CSR implementation in Vietnam. Corruption is largely due to low level of transparency, lack of governmental accountability, and lack of an adequate supervision system needed to hold officials accountable for their actions.

¹⁴² The Global Compact Network (GCNV) was launched in 2007 to promote cooperation between UN and VCCI. It was only after 2010 that the UNDP withdrew its support.

Vietnam ranks 112/168 in the Transparency International ranking in 2015. The low level of transparency often leads to different interpretation by government authorities. Although Vietnam ratified the UN Convention on Anti-Corruption in 2009, it has not signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Low salary levels of officials and competition among agencies for control over business and investment created loopholes for corruption. It becomes more challenging when local authorities are dependent on foreign investment to generate local revenue, and the repercussions include environmental damage and labour rights violation.

Second, enforcement of CSR regulations and laws is difficult in Vietnam. Although CSR is taking root, it is not mandatory for companies to disclose CSR in Vietnam. First, Vietnam is not an adherent of the OECD Guidelines for Multinational Enterprises, which creates the opportunities for the investors to ignore CSR implementation. Second, invested interests in the SOEs make the enforcement difficult. The dominance of Vietnamese SOEs in its economy means that the transparency needed for creating a fair and open market for corporations to implement CSR is lacking. Moreover, Vietnam lacks technical capability and experience in mobilising resources for CSR building. The Ministry of Labour, Invalids and Social Affairs (MOLISA) of Vietnam does not take an active role in promoting CSR. For example, the strength of the labour code is diminished by the

understaffed and undertrained labour inspectors in Vietnam. According to informants, with only 500 inspectors all over Vietnam, the labour inspection system is too weak to cope with rising levels of foreign investments in Vietnam. In addition, overlapping and inefficient coordination regarding labour issues among inspectors from MOLISA and Ministry of Health in Vietnam pose further challenges. As a developing country, Vietnam has placed economic concerns and poverty alleviation at the top of its national agenda. The understanding of CSR is limited among companies, civil society, and even governmental officials. CSR in Vietnam is often perceived as an economic tool for public relations that help companies to establish their foothold in the local community. Vietnam's legal system is still underdeveloped and ineffective in settling disputes. Negotiation between the concerned parties is the most common means of dispute resolution (U.S. Department of State, 2016).

Third, civil society's role as CSR watchdog over the government is highly limited, though the market-driven interests and civil society can potentially challenge the one-party rule (Thayer, 2009). It has been decades since the Vietnamese government created a variety of legal paths to establish NGOs though all of them are subject to the rule of the government. NGOs in Vietnam are governed by restrictive regulations such as Decision 97 in 2008, which imposes punishment on those who disseminate information deemed hostile to the government (Center for Development and Integration, 2013). Many CSR issues that require transparency, or related to

corruption are taken as politically sensitive. Therefore, they face constraints in playing the role of enhancing CSR. Trade unions in Vietnam are controlled by the Party and have only nominal independence. At present, the major public CSR actors are VCCI and VGCL. However, the VCCI appears to be a weak actor for enhancing CSR, partly because it is funded by the government and it has its own internal corruption issues.

Vietnamese civil society also has limited knowledge about CSR international standards and requirements. This is because the majority of NGOs in Vietnam have a background in rural development and poverty reduction, and thus collaborating with the government in promoting business CSR is still a new territory. Vietnamese NGOs lack CSR work experience in labour issues, environmental protection, and support for a transparent environment for sustainable development. Moreover, the lack of finance and human resources is another serious problem. Workers themselves do not know their rights and responsibilities so they cannot protect themselves against occupational risks.

4.5. Case Study: China Railway Sixth Group Co., Ltd in the Cat Linh-Ha Dong Sky Train Project

China Railway Sixth Group Co., Ltd. is a large-scale state-owned enterprise, which is subordinated to CREC as the only shareholder. It consists of 14 subsidiaries that can be dated back to the 1950s before the merger and acquisition during the economic

reform. Since 2005, China EXIM signed a cooperation agreement with a number of Construction Central SOEs, such as Sinosteel Corp., China Railway Group Limited, and CSCEC. In 2009, the CEO of this Chinese company signed a contract with the head of Railway Bureau of Vietnam's Transportation Ministry for the Cat Linh-Ha Dong Sky Train Project valued at over USD 550 million of initial Chinese investment (funded by preferential credits and concessional loan). This deal can be seen as part of China's economic stimulus plan against the impact of the 2008 financial crisis.¹⁴³

There are several complaints against the Sixth Group in Vietnam (see Table 4.6).

¹⁴³ 2008 Shehui Zeren Baogao, (Corporate Social Responsibility Report of Year 2008), <http://www.crecg.com/chinazt/resource/cms/2015/09/2015091017080160765.pdf>, accessed 18 October 2016.

Table 4.6 CSR performance of China Railway Sixth Group Co., Ltd in Vietnam

Stakeholders	Obstacles	CSR Weakness
China Railway Sixth Group Co., Ltd	<ol style="list-style-type: none"> 1) Insufficient resource to implement CSR programmes 2) Top-down coordination system 3) Financial issues 4) Heavy reliance on Chinese government 5) Lack of supervision towards subcontractors 6) Mistrust of NGOs 	<ol style="list-style-type: none"> 1) Serious safety and health work issues (violation of laws) 2) Delay of the project 3) Limited communication with the public or the Vietnamese government 4) Opaque reporting in the operation 5) Passive reaction towards crisis management
Vietnamese government	<ol style="list-style-type: none"> 1) Sectoral interests 2) Weak enforcement of law and regulation 3) Red Tape Bureaucracy 	<ol style="list-style-type: none"> 1) Limited technical assistance to the solution 2) Lack of coordination among different governmental bodies 3) Opaqueness in dispute settling 4) Weak punishment mechanism
Vietnamese local society	<ol style="list-style-type: none"> 1) Limited awareness of CSR and rights 2) Subject to authority 	<ol style="list-style-type: none"> 1) Excluded in decision making process 2) No administrative guidance

Source: Summary based on various media reports

Despite the Chinese government's attempts to improve its overseas CSR records, there is little evidence of a strategic plan for investing in the Chinese construction industry abroad. The complicated internal mechanism of CREC prevents an efficient and clear investment strategy. After a series of reforms, CREC has 18 subsidiaries in the construction (EPC) area, excluding other subsidiaries in manufacturing, design, overseas projects, R&D and investment and so on. SOEs (similar to CREC) may have sizable subsidiaries but productivity is not always positively related to size. The total debt of RMB 3.94 trillion of the first three quarters in 2015 increased 11.6 per cent,

compared to the same period in 2014.¹⁴⁴ According to a staff in CREC, in order to find an outlet for the survival, CREC attempted to maximise its project contracts whenever possible, thus intensifying competition with other companies.¹⁴⁵

Under competitive market conditions, companies such as China Railway Corporation face challenges from other state firms of the same category. For instance, CSCES, which also has a vice-ministerial rank, enjoys similar technological capabilities and bureaucratic leverage to compete for the same projects. Given that the senior management of these construction SOEs are also occupied by important political figures with motivation to be promoted, they need to compete to secure the bid. In this regard, they actively seek projects to expand their market share at the expense of not making profit. As a result, state firms compete to secure contracts and resources through bribery and political connections.

Moreover, how these subsidiaries bid for the opportunity of operating overseas or whether they are assigned by the parent company is not made known to the public. The public is confused about the roles of the subsidiaries and does not understand how the parent company CREC work with these subordinate units in overseas

¹⁴⁴ Zhong Tie Zongkuisun Kuoda Zhi 94 Yiyuan, Fuzhailv Shouci Jiangdi, (The overall loss increased to 9.4 billion RMB, the asset liability ration reduced for the first time), <http://wallstreetcn.com/node/225895>, accessed 5 May 2016.

¹⁴⁵ Anonymous, personal communication, Beijing, 17 November 2015.

projects. For example, the official website shows a list of three companies which are in charge of overseas projects: CREC International Group, CREC Oriental International Group, and CREC Assessment Management Limited Group (Hong Kong). However, there is no public information on how these three companies cooperate in decision making in overseas projects. For example, information on how the Sixth Group won the EPC bidding in the Cat Linh- Ha Dong Sky Train Project remains unavailable to the public.

Compared to other foreign companies, China's international contracting sector generally experience the lowest operating margins and the highest costs. This is a common strategy to outbid their domestic and foreign rivals.¹⁴⁶ When the cost cannot be covered by project revenue, the project managers will either use inferior materials or equipment or subcontract the work to unqualified construction firms. The loopholes in Vietnam's Law on Tendering have favoured low prices over technical aspects. According to Nguyen, "If the bidding was done in a transparent way, according to the law and using criteria with maximum long term benefits for the nation, then no Chinese bidder could win any project in Vietnam...." (Morris, 2013, p. 20) .

¹⁴⁶ Zou Chuqu Qiye Jian Xietiao Burong Hushi, (Coordination between Companies Going Out Should Not Be Neglected), <http://mnc.people.com.cn/GB/5704085.html>, accessed 23 September 2016.

As subsidies are provided by the Chinese government, Chinese contractors can afford to offer lower prices than their competitors. As a result, the most common problem is that Chinese companies fail to safeguard quality performance and even violate contractual terms and conditions, hindering the sustainable development of Vietnamese infrastructure. The Cat Linh-Ha Dong Sky Train Project, which began in 2011, was expected to be completed in 2015. However, the construction of the project was reported to be behind schedule due to shortage of funds, difficulties in land expropriation, and a series of serious accidents at its construction sites.

In terms of the land expropriation, the Sixth Group was seen as dependent on the Vietnamese government. According to the staff in the Sixth Group,

“it is common to rely on the host country for the land settlement in the government-to-government investment mode. It is unrealistic to solely rely on Chinese companies in carrying out CSR. It is their country and their land, we are in no position to reach out to the local residents since it is the responsibility of the host government. We just come here to finish what they request.”¹⁴⁷

¹⁴⁷ Staff in the Chinese company, personal communication, Hanoi, 2 December 2015.

The Vietnamese government faced difficulties in seeking permission from the local residents to use the large scale of land for the railway project.¹⁴⁸ An NGO staff suggested that neither the Vietnamese government nor the Chinese company held a public hearing to explain the railway project.¹⁴⁹ She further suggested that NGOs were barely seen in the CAT Linh-Ha Dong Sky Train Project. Much work was conducted without transparency. For one reason, NGOs activities in Vietnam are strictly regulated by the government. Besides, many NGO workers lack awareness and do not have technical support to play the role of a watchdog. Without a reliable proposal regarding resettlement, the Vietnamese government could not counter the local people's resistance. Eventually, the government forced the residents to accept the compensation plans drafted by the government without any consultancy or a third-party's supervision. According to the *Global Times*, the Sixth Group was unable to be reached for any feedback on the project delay while the former Ambassador Mr. Qi Jianguo who was promoting the railway programme commented that the delay of the project was caused by Vietnam's problem in the resettlement plan, not by the Chinese company.¹⁵⁰

¹⁴⁸ Yuenan Fuzong Li Shicha Wo Henei Qinggui Gongdi, (The Vice Premier of Vietnam visited our project in Hanoi), <http://www.crsg.com.cn/International/15.html>, accessed on 30 September 2016.

¹⁴⁹ Anonymous NGO staff, personal communication, Hanoi, 4 December 2015.

¹⁵⁰ <http://world.huanqiu.com/exclusive/2015-01/5375506.html>, accessed 4 October 2016.

In terms of labour safety, the Sixth Group has failed to provide workers with fundamental occupational safety required by Code 2012 of Vietnam. On 6 November 2014, one motorbike driver died and two others were seriously injured after being crushed by a steel beam dropped from a crane at the construction site, prompting the Ministry of Transport to suspend construction for a safety review. The deputy prime minister and chairman of the National Traffic Safety Committee Nguyen Xuan Phuc immediately requested the Ministry of Transportation and Traffic Safety Committee of Hanoi to supervise both the investor and contractors to suspend all construction activities that do not guarantee occupational safety.¹⁵¹

However, the enforcement capacity of the Vietnamese government was questionable. There was no enforcement made to punish the non-compliance of the Chinese company. Instead, the construction resumed within seven days on 14 November without any public report from the Sixth Group. Occupational safety issues still plagued the project. On 28 December 2014, a 10-meter scaffolding collapsed, injuring a few passengers on the street. The recurring accidents were not without reasons. According to the interviewee, an official from the quality control department of Vietnam failed to play his role as an inspector. The interviewee even indicated the subcontractor bribed the quality control inspectors.

¹⁵¹ Trang Ngo, 'The sky train project suspended due to accident', www.vneconomy.vn/thoi-su/du-an-duong-sat-tren-cao-tai-ha-noi-bi-dinh-chi-vi-tai-nan-2014110609475347.htm, accessed 16 November 2016.

The minister of transport Dinh La Thang, requested the Sixth Group (including the chief contractor, monitoring-consulting unit, and subcontractors) to ensure construction safety and health and to cooperate with relevant authorities to address the issue.¹⁵² At the same time, MOT sent a note to the Chinese ambassador:

“Recently learning from the two serious occupational incidents and to ensure safety of lives and properties of passengers near construction sites, the Vietnam Ministry of Transport kindly requests the Ambassador of the People’s Republic of China in Vietnam, to remind the chief contractor the Sixth Group and the Chinese monitoring - consulting unit of performing duties and bear full responsibilities for all incidents, as well as preparing a comprehensive action plan of ensuring absolute safety for the entire project until completion and operation, also giving timely encouragement, visitation and fair compensation for the life losses and property damages caused by these incidents.”¹⁵³

¹⁵² Xuan Than, ‘Skytrain incident: responsibilities belong to main contractor’, www.vov.vn/kinh-te/su-co-duong-sat-tren-cao-tong-thau-phai-chiu-trach-nhiem-chinh-374546.vov, accessed 16 October 2016.

¹⁵³ “Note Verbale sent to the Ambassador of the People’s Republic of China regarding incidents at Sky Train Railway Cat Linh- Ha Dong Project’, www.mt.gov.vn/tthc/tin-tuc/35279/bo-gtvt-gui-cong-ham-den-dai-su-dac-menh-toan-quyen-nuoc-cong-hoa-nhan-dan-trung-hoa-tai-viet-nam-lien-quan-den-su-co-xay-ra-tai-cong-truong-du-an-duong-sat-cat-linh---ha-dong.aspx, accessed 15 October 2016.

However, the reaction of the Chinese Embassy to this note and further correspondence between the two government agencies were unknown.¹⁵⁴ Actually, Chinese embassies in host countries do not have any supervisory role over business activities. Generally, the Economic and Commercial Counsellor's Office (ECCO) that is subordinate to MOFCOM is set up within the embassies to oversee Chinese business activities. However, there is no such agency role within Chinese Embassy in Vietnam. Therefore, China's network of overseas representatives is not properly utilised to protect the investment and reputation of the country. Moreover, it is difficult to ensure compliance among state agencies and host country in the absence of such a supervisory body that coordinates action.

On January 4, 2015, Vietnam Minister of Transport Dinh La Thang warned the Sixth Group: "Despite our exhaustive coordination with relevant agencies, the chief contractor seemed to refuse to take actions....I no longer trust their promises and their assured responsibilities."¹⁵⁵

¹⁵⁴ In fact, as early as February of 2014, the Chinese Ambassador to Vietnam visited the construction site and inspected the progress of the construction with admiration.

<http://www.crsg.com.cn/International/16.html>.

¹⁵⁵ Thien Anh, "Minister Thang warns main contractor of Cat Linh - Ha Dong railway", www.dantri.com.vn/xa-hoi/bo-truong-thang-can-h-cao-tong-thau-duong-sat-cat-linh-ha-dong-1421071471.htm, accessed 15 October 2016

In response to the criticism from the minister of MOT of Vietnam, the Sixth Group representative agreed to replace the subcontractor after the second accident in December. The anonymous staff in the Sixth Group admitted that the fierce competition forced them to seek subcontractors who agreed to build at high costs so their Group could be able to make marginal profits.¹⁵⁶ He also agreed that the Sixth Group commissioned 14 subcontractors for the whole project, and the Group found it difficult to oversee the overall quality and conduct safety inspection due to inadequate staffing and communication barriers. Therefore, no improvement was made when the Ministry of Transport and the project management board ordered the Sixth Group to carry out self-review and reorganisation to ensure construction progress as well as safety.¹⁵⁷ On 12 May 2015, a large iron bar suddenly fell on a car. On 25 August, a steel bar in the worksite fell. On 27 August, the Sixth Group and its consultant firm Construction Supervision Co. Ltd. under the Beijing National Railway Research & Design Institute received a warning from Vietnam's railway ministry over repeated labour safety violations. However, the Vietnamese government did not take concrete action. Both the Chinese company and Vietnamese government appeared passive in disclosing the information of the project progress.

¹⁵⁶ Interview in Hanoi 4 December 2015.

¹⁵⁷ Thai Son, 'Sky Train Railway Cat Linh-Ha Dong project: Slow progress, Lack of safety', www.thanhnien.vn/thoi-su/duong-sat-do-thi-cat-linh-ha-dong-cham-tien-do-va-mat-an-toan-545841.html, accessed 15 October 2016.

In September 2015, the Sixth Group was inspected by the MOLISA of Vietnam and was accused of committing 16 violations, according to inspection results. Among these violations, the Sixth Group was revealed that it did not comply with many occupational safety and health (OSH) regulations. According to one of the inspectors,

“...Many regulations on occupational safety were not respected, i.e. the company did not prepare statistics of workers holding construction jobs with strict requirements on safety; no 6-month or annual reports on the situation of occupational accidents were sent to state management authority regarding local labour; the company did not declare their uses of machines and equipment with strict requirements on labour safety to the Hanoi’s Department of Labour, Invalids and Social Affairs under regulations...”¹⁵⁸

The Sixth Group also violated wage, social insurance, and labour contracts. The inspectors discovered that the company did not comply with regulations on wages, social insurance contributions, or labour contracts signed under the provisions of the

¹⁵⁸ Hoang Manh, ‘Cat Linh-Ha Dong railway: Many violations of Chinese main contractor detected’, www.dantri.com.vn/viec-lam/duong-sat-cat-linh-ha-dong-phat-hien-nhieu-sai-pham-cua-tong-thau-trung-quoc-20151002154352534.htm, accessed 14 October 2016.

Labour Law.¹⁵⁹ In particular, the company imposed a wage lower than the regional minimum wage stipulated by the state. Through randomly examining 20 contracts, the inspectors detected that the company is paying VND 3,000,000 per month per worker, while the minimum wage in Hanoi is VND3,100,000.¹⁶⁰ The Sixth Group failed to enrol 28 out of 82 workers for social and unemployment insurance.¹⁶¹ Moreover, the contractor did not have wage scale payrolls and labour quotas sent to authorities.¹⁶²

The Sixth Group was said to issue illegal labour contract to workers. In their labour contracts, the employers and employees' rights and duties were not specific enough: no articles on social and unemployment insurance, no specific tasks mentioned but stated in one phrase. For example: 'employers will arrange duties and workplaces based on employers' business requirements and employees' competence'.¹⁶³ These

¹⁵⁹ Song Ha, 'Plenty of labor violations in Hanoi sky train project', www.vneconomy.vn/thoi-su/nhieu-sai-pham-ve-lao-dong-tai-du-an-duong-sat-tren-cau-ha-noi-2015100307542447.htm, accessed 24 October 2016.

¹⁶⁰ Hoang Manh, 'Cat Linh-Ha Dong railway: Many violations of Chinese main contractor detected', www.dantri.com.vn/viec-lam/duong-sat-cat-linh-ha-dong-phat-hien-nhieu-sai-pham-cua-tong-thau-trung-quoc-20151002154352534.htm, accessed 24 October 2016.

¹⁶¹ Quynh Chi, 'Plenty of violations in Cat Linh-Ha Dong railway project', www.m.laodong.com.vn/xa-hoi/nhieu-sai-pham-tai-cong-trinh-duong-sat-cat-linh-ha-dong-383157.bld, accessed 14 October 2016.

¹⁶² Song Ha, 'Plenty of labor violations in Hanoi sky train project', www.vneconomy.vn/thoi-su/nhieu-sai-pham-ve-lao-dong-tai-du-an-duong-sat-tren-cau-ha-noi-2015100307542447.htm, accessed 16 October 2016.

¹⁶³ Hoang Manh, 'Cat Linh-Ha Dong railway: Many violations of Chinese main contractor detected', www.dantri.com.vn/viec-lam/duong-sat-cat-linh-ha-dong-phat-hien-nhieu-sai-pham-cua-tong-thau-trung-quoc-20151002154352534.htm, accessed 16 October 2016.

are against Article 23 of Vietnam's Labour Code on Contents of a labour contract¹⁶⁴ and its instructions at *Article 4 of Decree No. 05/2015/ND-CP* on work description and work places.¹⁶⁵ The existing contracts even include inappropriate content under labour law, i.e. 'the employer may cancel the labour contract with the worker in the event of unplanned child birth'.¹⁶⁶ Such contents are clearly violating the Labour Code 2012 of Vietnam. However, the interviewee from the Sixth Group denied such an allegation and accused Vietnam's media of defaming Chinese business due to political tensions over the South China Sea dispute. He indicated that the loopholes in Vietnam's legal system make it common for subcontractors from Vietnam to ignore Vietnam's labour law.¹⁶⁷

Mr. Phan Cong Tho, deputy chief inspector of MOLISA, commented that the Sixth Group needed to take actions:

“...a report will be requested to submit to inspecting bodies within 45 days. If the company does not have any improvement after this period, we (MOLISA)

¹⁶⁴ Ministry of Labour, Invalids and Social Affairs, 'Labour Code 2012'. Labour & Social Affairs Publishing House (2013), www.ilo.org/dyn/natlex/docs/MONOGRAPH/91650/114939/F224084256/VNM91650.pdf, accessed October 15 2016.

¹⁶⁵ 'Decree No. 05/2015/ND-CP', www.itpc.gov.vn/investors/how_to_invest/law/Decree_No.05_2015/view, accessed 14 October 2016.

¹⁶⁶ Song Ha, 'Plenty of labor violations in Hanoi sky train project', www.vneconomy.vn/thoi-su/nhieu-sai-pham-ve-lao-dong-tai-du-an-duong-sat-tren-cao-ha-noi-2015100307542447.htm, accessed 14 October 2016.

¹⁶⁷ Anonymous, personal communication, Hanoi, 2 December 2015.

must severely punish them. In fact, inspection department will impose a fine based on each violation, a maximum fine is VND 75 million per act of violation and different acts will be accumulated.”¹⁶⁸

However, there is no further information on the response from the Sixth Group or the follow-up action by the Vietnamese government so the enforcement capability of the Vietnamese government is also questionable. According to an observer, the Vietnamese government prefers the Chinese company to settle the issue themselves because the project is part of government-to-government deal. The weak legal system of Vietnam remained inefficient in settling issues. To certain extent, bribery is more efficient in ‘smoothing’ tensions.¹⁶⁹

Despite warnings and fines, accidents took place repeatedly. Steel bar fell from the site again on 4 May 2016. The Council requested the project management board to direct the Chinese chief contractor, subcontractors, and monitoring consulting units to maintain and improve capacity building and training to ensure occupational safety and traffic safety during construction, especially at terminal stations and during beam instalment, as well as implement anti-rust measures for standby reinforcement of

¹⁶⁸ Ngo Phuong and Minh Hanh, "Cat Linh-Ha Dong railway project: workers' wage is lower than minimum wage", www.cafef.vn/thoi-su/du-an-duong-sat-cat-linh-ha-dong-luong-cong-nhan-thap-hon-luong-toi-thieu-vung-20151006073940481.chn, accessed 14 October 2016.

¹⁶⁹ Activist from NGO in Vietnam, personal communication, 5 December 2015.

existing structure units.¹⁷⁰ However, on 10 September 2016, a barrier at a terminal stairway of a construction site suddenly collapsed onto passengers.¹⁷¹ On 16 October 2016, a worker died at the construction site outside of his working hours due to lack of safety protection on the construction site.

In response to complaints, the Sixth Group finally responded by speeding up the project and improving construction safety mainly through financial incentives. For example, an announcement of a prize up to USD \$2 million for subcontractors to compete in construction completion and safety assurance,¹⁷²

“To subcontractors who do not finish on time, one day of delay will cost them VND 10,000,000 (USD 500) per day as a punishment, applying even in the case of only one day late. Conversely, those who complete their construction ahead of time will be rewarded VND 10,000,000 (USD 500), as well as receive a

¹⁷⁰ Van Duan, ‘Hanoi sky train: Unsafety and slow progress’, www.nld.com.vn/thoi-su-trong-nuoc/duong-sat-tren-cao-ha-noi-thieu-an-toan-cham-tien-do-201606061712, accessed 17 October 2016.

¹⁷¹ ‘Cat Linh-Ha Dong railway fence collapsed, making caravans panic’, www.vietnamnet.vn/vn/thoi-su/an-toan-giao-thong/hang-rao-duong-sat-cat-linh-ha-dong-do-sap-nguoi-di-duong-hoang-loan-326013.html, accessed 18 October 2016.

¹⁷² Hai Duong, ‘A \$2 million reward for Cat Linh-Ha Dong railway progress’, <http://anninhthudo.vn/oto-xe-may/treo-thuong-tien-do-2-trieu-usd-cho-duong-sat-cat-linh-ha-dong/7>, accessed 17 October 2016.

grant based on conditions of the signed agreement between contractor and subcontractors and get refund for previous fines of overdue projects.”¹⁷³

The Sixth Group hardly applied any efficient CSR measure throughout the operation. Despite plenty of commitments made for public relation purposes, actual actions and improvement were hardly recorded. It is especially so in the case of labour law violations and serious occupational safety accidents. There was no proof of B6 CREC’s effort in developing a good relationship with the local community or seeking support for its CSR from the Chinese Embassy or business associations. In 2012, the Sixth Group issued the requirement of improving performance on their overseas project.¹⁷⁴ However, the subsequent accidents proved that the implementation is weak. In the official website of the Sixth Group, there is no section on CSR, nor any report on the accidents in the Cat Linh-Ha Dong Sky Train Project. Updates on the project were no longer available since August 2014.

In fact, CREC began to issue its first CSR initiative on domestic performance as early as 2008 but reporting on CSR funding and spending remain vague. The 2008 CSR report had claims of following the 10 Principles based on Global Compact and Global Reporting Initiative (GRI), as well as regulations from SASAC, Shanghai Stocks

¹⁷³ Ibid.

¹⁷⁴ <http://www.crsg.com.cn/International/7.html>, accessed 1 October 2016.

Exchange, and Hong Kong Exchange and Clearing. It also claimed to launch an independent assessment in 'appropriate time'.¹⁷⁵ There is limited coverage on its overseas CSR performance. Since 2009, CREC issues both Chinese and English CSR reports. In the Report of 2009,¹⁷⁶ it began to cover its overseas operations with focus on Africa. This report only covers positive cases where CREC has contributed to the local employment, tax, donation, and infrastructure assistance. There is not much difference in the Reports of 2010, 2011, and 2012 (with the focus on Cambodia) from the one of 2009. The Report of 2013 only covers two new cases of CREC contributing to the philanthropic causes and infrastructure improvement in Venezuela and Mali. The 2014 CSR Report is missing from the official website. The 2015 CSR Report provides plenty of details on CSR contribution such as the amount of money spent on building schools, stationery, students' clothes, and medical kits, among others. It also emphasises the contribution to medical rescue and operations made to the needy in Congo and Angola.¹⁷⁷

These CSR reports have common features. First, they highlight economic contribution to the local government and this includes increasing revenue and local employment. Moreover, they emphasise the contribution to philanthropy such as medical care, building infrastructure, and donations. Second, all of the reports reflect

¹⁷⁵ <http://www.crecg.com/chinazt/resource/cms/2015/09/2015091017080160765.pdf>

¹⁷⁶ <http://www.crecg.com/chinazt/resource/cms/2015/09/2015091017095830167.pdf>

¹⁷⁷ 2015 CREC CSR report, <http://www.crecg.com/chinazt/268/288/355/13871/index.html>

that CREC hardly has connection with NGOs or the local community. It adopts an elitist approach when working with the host government. Third, the reports lack neutrality because they selectively cover positive cases, omitting negative cases such as the Cat Linh-Ha Dong Sky Train Project. Last but not least, there is even no section in the Sixth Group Website for CSR updates so CSR activities remain unknown.

Transparency International disclosed that Chinese companies in Vietnam displayed very weak performance in the anti-corruption programmes, with the exception of ZTE Corporation. In this report, China has the strongest presence (13 companies out of 22). However, the majority of the Chinese companies, including CSOEs such as CNOOC and CSCEC (China State Construction Engineering Corporation), scored 27 per cent and 8 per cent respectively. They score well below the average anti-corruption transparency score of 45 per cent (Transparency International, 2016).

On the one hand, the Sixth Group of CREC's behaviour is the institutional spillover from its own domestic institutional deficiency. After the reform, it became a commercial entity. Fierce competition forced construction companies to place business returns over CSR costs. The Sixth Group borrowed its domestic experience of working with the authority while overlooking the demands of CSR to the community. The fierce competition and opaque bidding system created loopholes for

corruption and red-tape opportunities. More seriously, it distorted the market because most of the bidders adopt an irresponsible business strategy of reducing the bidding price and lowering the quality of the project. The overlapping but fragmented supervision system back in China also weakens the monitoring of the Chinese business activities.

On the other hand, the lack of foreign investment and limited capacity of enforcing law and regulations of the Vietnamese government created opportunities for the Sixth Group to avoid compliance. The Vietnamese government also lacked technical capabilities and work experience in mobilising resources for regulating the behaviour of the Sixth Group. With low transparency and a highly limited role of the civil society in Vietnam, the public participation in the CSR continues to lag behind and this results in the failure to monitor the foreign company and the government.

4.6. Conclusion

As China's overseas investment becomes increasingly important, the emergence of China as an international investor presents many opportunities for countries all over the world. CSR is still a relatively new concept for Chinese companies, and thus insufficient knowledge and experience may deter successful CSR performance overseas. Politically-powerful and commercially-driven Chinese SOEs can hardly bring sustainable development to the host countries without proper and stringent

regulations from both China and host countries. For China to gain a solid foothold in the international market, it first has to overcome its domestic issues. There is an urgent need to establish an effective mechanism to improve the governance and supervision of the construction industry. It is also critical to establish transparency in the internal procedures for the bidding process and for standardising bidding documents. The existing regulatory framework is incomplete: SOEs receive favour; private companies are marginalised.

However, ensuring good CSR implementation within the Chinese company is not merely China's responsibility; it is also the host countries' task to improve governance. Vietnam needs to enhance its capacity of enforcing laws and regulations while creating a transparent and open business environment for civil society to play a more active role in all companies.

5. Chapter Five - China Power Investment Corporation¹⁷⁸ in Myanmar

5.1. Introduction

Historically, Myanmar is a country closely connected to China in various aspects. In 1949, Myanmar became the first non-socialist country to recognise China's communist regime. When economic exchanges remained minimal during the Cold War, political and security cooperation dominated the China-Myanmar relations. As one of the highlights of China's diplomacy in the 1950s and 1960s, bilateral relations were soon anchored on brotherhood (Pauk Phaw in Burmese). In the 1960s and the 1970s, however, the bilateral relationship deteriorated due to China's support for the communist movement in Myanmar and anti-Chinese sentiment in Myanmar. After the establishment of triangular relations among China, Soviet Union, and United States, Myanmar's status in China's foreign policy as a buffer to counter the superpower began to decline. China then eased its ideological foreign policy to focus on economic development. The relationship underwent a transformation following the military coup of 1988, which coincided with the end of the Cold War and China's push for economic growth. In 1988, the military junta assumed power through Myanmar's State Law and Order Restoration Council (SLORC) and subsequently State Peace and Development Council (SPDC) after the crackdown of the pro-democracy protest, one year before China's Tiananmen Square Incident. To advance its domestic political interest, China supported the military junta. China-Myanmar relations, once forged by ideological affinity and buffer policy, have now shifted to

¹⁷⁸ China Power Investment Corporation (CPI), was merged with State Nuclear Power Technology Corporation (SNPTC) to form the current State Power Investment Corporation (SPIC). This article will use CPI as the subject.

strategic and economic interests through massive investment and trade.

Under the previous military government in Myanmar, China became Myanmar's largest foreign investor and wielded the most international influence in the country. China supported Myanmar's military junta largely through economic aid, such as interest-free loans, economic assistance programme, and technological cooperation. As anticipated, economic statecraft provided China with a new regional ally and helped the development of China's least-developed Yunnan Province. Therefore, China's economic statecraft contributed to the close leaning of Myanmar. In 2003, Than Shwe, the then president of Myanmar assured Chinese delegates led by the vice premier Li Lanqing that 'Myanmar will forever be on the side of China on the matters relating China's interest' (Steinberg and Fan, 2012). In 2004, Myanmar signed a large number of agreements with China during the then vice premier Wu Yi's visit, accompanied by the 46-entrepreneur delegation. These agreements aimed at promoting trade, investment, and economic cooperation in steel, telecommunication, hydropower, agribusiness, minerals, and infrastructure. In June 2009, a memorandum of agreement (MOA) on development, operation, and transfer of hydropower projects in Maykha, Malikha, and the upstream of Irrawaddy River (*Ayeyarwady* River)-Myitsone River Basin, and a memorandum of understanding (MOU) related to the Sino-Burmese pipelines project were signed during General Maung Aye's visit to China.

Accordingly, China made its presence felt when it supported the military junta through various means, among which economic means has been the most prominent but also the most controversial. Despite its economic success in Myanmar, China's plans were occasionally waylaid by its government counterpart. Since March 2011, the new government has brought significant challenges to China's political and economic relations with Myanmar. The suspension of the Myitsone Dam project announced by the quasi-civilian government in 2011 and opposition over other China-invested projects taught the Chinese government a lesson: the 'licence to operate' is becoming more important in protecting its interests overseas. China now has to engage with different actors in the society that influence Myanmar's socio-political landscape and other foreign actors.

In 2013, Xi's One Belt One Road (OBOR) Initiative was embraced by Myanmar. In December 2013, the two countries signed MOUs and agreements on Economic and Technological Cooperation under the Framework of Bangladesh–China–India–Myanmar Forum for Regional Cooperation-Economic Corridor (BCIM-EC). Myanmar also responded by becoming the founding member of AIIB. In September 2016, the Chinese backed AIIB provided a USD 20 million loan to develop a gas power plant in central Myanmar. The Kyaukpyu project which involves the construction of a deepwater port at the Special Economic Zone (SEZ) is intended to become a key element of China's OBOR Initiative.

With enormous capital and supportive policies, Chinese companies enjoyed an overwhelming investment advantage in Myanmar, particularly when the military junta faced sanctions and needed foreign investment. However, the implications of China's investments have upset the target country in various issues, such as national security, governance, environment, with the Myitsone Dam project serving as a warning sign of China's overseas business practice. A case study of Myanmar offers great insights into understanding the backlash on bilateral relations caused by business activities of the Chinese enterprises and the reasons for the behaviour of these Chinese companies. Myanmar possesses a unique set of characteristics. Despite the scarcity of reliable data from both China and Myanmar, this chapter aims to provide a systematic investigation of China's CSR behaviour. Section 2 evaluates bilateral economic relations between China and Myanmar. Thereafter, Section 3 provides the features of Chinese application of CSR in Myanmar, in comparison with other organisations, followed by an explanation of independent variables in Section 4. Section 5 offers a case study of the Chinese company China Power Investment (CPI) and evaluates its CSR performance. Section 6 concludes this chapter with the affirmation that a stronger state capacity from both investor country and recipient country is required to assure sustainable labour, environment, and safe corporate practices.

5.2. Economic relations of China and Myanmar

5.2.1. Sino-Burmese trade relations

China's trade with Myanmar has been on the rise since 1988 when the focus of its foreign policy was switched from ideology-driven to economic-pragmatism. Between 2003 and 2015, the bilateral trade relations appeared asymmetrical and China enjoyed trade surplus with Myanmar (see Figure 5.1). China exported products such as machinery, assembled products critical to Myanmar's industry development; Myanmar exported primary commodity products such as oil, minerals, timber, and agriproducts. China became a major supplier for Myanmar's general merchandise, particularly when Myanmar suffered Western sanctions and before the civil government took power. The isolation resulted in heavy reliance of the military junta on China for Chinese products. At the same time, given the Burmese low purchase power, Myanmar needed affordable Chinese products.

Figure 5.1 Myanmar's export and import figures with China from 2003 to 2015 in USD million

Source: CEIC Database¹⁷⁹

5.1.1.1. China's investment in Myanmar

In tandem with the growing trade, Chinese investment flows to Myanmar also increased. From 2004 to 2015, the volume of China's investment increased nearly 200 times (see Figure 5.2). Figure 5.2 shows that 2011 has been a turning point of Chinese investment in Myanmar when the Myitsone Dam project suspension was declared under Thein Sein's presidency. After the dam suspension crisis, Chinese investment rose though the pace was slow. This was a result of a series of incidents targeting at Chinese investments such as the public resistance in Letpadaung Copper Mine and heavy blows to the Chinese investors' confidence caused by the

¹⁷⁹ <https://www.ceicdata.com/en?loc=SG&rand=fTaUp>, updated 12 November 2016.

construction of gas and oil pipelines. Besides, the political transition period of Myanmar's government hindered Chinese investment. Based on project numbers in Myanmar since 2012, Singapore overtook China (excluding Hong Kong) to become the leading investor (see Figure 5.3). Meanwhile, Myanmar had more diverse foreign investment inflows as the sanctions were gradually lifted. Countries such as the United Kingdom, Japan, and South Korea increased their investments and competed directly with China's investment in Myanmar.

Figure 5.2 China's investment in Myanmar from 2004 to 2015 in million USD

Source: CEIC Database, updated 12 November 2016.

Figure 5.3 Approved leading projects in Myanmar by October 2016

Source: CEIC Database,

However, the total volume of China's investment in Myanmar reached USD 18,529.301 million, surpassing other countries. Second and third places were taken by Singapore and Thailand (see Figure 5.4). It is prudent to note that the Chinese ventured into places where investments from other developed countries have shunned. The development of Myanmar currently lags far behind other ASEAN members on most standards, such as poor road connectivity, insufficient power generation capacity, and inefficient port management. The lack of infrastructure also restricted Myanmar's development of trade and manufacturing industries.

Chinese investments would fit in situations where other investors are reluctant to invest in poor investment environment (Corkin, Burke, and Davies, 2008; Urban,

Nordensvard, Khatri, and Wang, 2012). More importantly, Chinese investment could offer the local people access to basic infrastructure and the host country a much-needed boost in infrastructure for economic development. For example, developing mining requires stable electricity supply and thus building the Shweli 1 and Tarpein 2 Dams enabled the neighbourhood to access electricity and water (International Rivers, 2012; Urban, Nordensvard, Khatri, and Wang, 2012).

Figure 5.4 Approved FDI country source in Myanmar by October 2016 in million USD

Source: CEIC Database

China's investments in Myanmar have extended from traditional sectors such as agriculture, industry, and trade, to tertiary sectors such as telecommunication, technology, tourism, and fisheries. However, four sectors are most commonly seen in

Myanmar (see Figure 5.5). The majority sector of Chinese investment in Myanmar is still energy, accounting for 58 per cent.

Figure 5.5 China's investment share in Myanmar by sectors from 2005 to 2016

Source: China Global Investment Tracker by American Enterprises Initiative updated 4 December 2016.

Some scholars argue that China's ODI exacerbated weak governance in the pariah regimes (Alden, 2007; Tull, 2006; González-Vicente, 2011), especially in the resource-extractive areas. Given China's heavy investment in Myanmar's energy sector, and its elite-oriented approach in obtaining projects, populist protests broke out against several Chinese-involved investments (see Table 5.1).

Table 5.1 Chinese major controversial investment projects in Myanmar

	Projects	Enterprises
1.	Sino-Myanmar pipelines project	China National Petroleum Corporation*
2.	Myitsone dam project	China Power Investment**
3.	Letpadaung copper mining project	Myanmar Wanbao Copper Mining Ltd.
4.	Thanlwin river 6 hydropower projects	Hanergy Holding Company, Hydrochina Corporation, China Three Gorges Corporation, China Datang Over Seas Investment, Sinohydro, EGAT International Co., Ltd
5.	Chin state, Mt. Mwe and Mt. Pa Nickel mining project	North Mining investment
6.	Rakhine state, Rethedaung and Maungdaw titanium mining project	Gold Finder
7.	Kachin state, Illegal logging	Unknown
8.	Kyaukpyu-Kunming Railway	CREC
9.	Kyaukpyu Special Economic Zone	CITIC Group
10.	Dawei Oil Refinery	Guangdong Zhenrong Energy Co
11.	Khaunglanphu Dam	CPI
12.	Chibwe Dam	CPI
13.	Lakin Dam	CPI

*Companies include Daewoo International, Myanmar Oil and Gas Enterprise (MOGE), Oil and Natural Gas Corporation (ONGC) Videsh, Gas Authority of India (GAIL), Korean Gas Corporation (KOGAS) and China National Petroleum Corporation (CNPC). But when people criticise this project, they often mention only CNPC.

** The company has changed its name to the State Power Investment Corporation in 2015.

***EGAT International Co., Ltd is a Thai Enterprise.

Source: Adapted from Myanmar media reports

5.3. CSR by Foreign Companies in Myanmar

5.3.1. CSR practice by companies from advanced countries

Like other countries, while sustaining small-scale debt-relief grants and humanitarian aid, Japan suspended its aid and investment programme in Myanmar after the SLORC was established. As Japan's economic involvement waned, China rapidly emerged as

Myanmar's important partner. However, during the political transition of Myanmar, Japan seized the opportunity to restore its economic engagement with the country.

Infrastructure development took priority under the Japan International Cooperation Agency (JICA), one of the best organisations carrying out CSR in Myanmar (Hlaing and Li, 2016, p. 45). Japanese companies under the JICA mainly concentrated on regional poverty reduction, such as development of infrastructure as well as provision of water and electricity. Meanwhile, they extended CSR implementation in various areas: education (for children and human resource development); health (such as control of disease, training of medical workers, and nutrition for children); water resources and disaster relief (such as water provision technology for drought seasons); social welfare for the physically-challenged and the disadvantaged to reintegrate into society; priority for technical assistance in agriculture and fishery; village community development; and environmental protection. When Western sanctions were imposed, the JICA extended assistance and scholarship to about 6,000 Myanmar students (Hlaing and Li, 2016). As Japan resumed its foreign aid and investment in Myanmar, its record of implementing CSR would make a profound impact on Myanmar's development.

Myanmar media usually described China as the country that despoiled natural resources without any regard for environmental and social impact; Japan is described as a provider for developmental aid and modernisation. Japan utilised different forms

of responsible economic activities in Myanmar: government-to-government cooperation, as well as regional and international organisations, among others. Japan also encouraged its own NGOs to engage with the community of the host country. For instance, in September 2015, Japan signed an MOU with Myanmar to pledge USD 3.46 million for the development of agriculture, fishery, rural sectors, and road construction in both Kachin and Chin States. On 24 March 2015, Japan Grassroots Human Security Projects (GGP) also granted USD 1 million for constructing infrastructure for health facilities and middle schools in Kayah, Kachin, and Chin States.¹⁸⁰ Japan also granted a project funding of USD 3 million through Asia Development Bank (ADB) for training small handicraft souvenir business operators to promote tourism and for training local food production operators in Chaungzon, Kyaikto, Mawlamyine, and Mudon townships. The project was expected to benefit 900 households in 12 villages in those four townships and was aimed to raise the employability of women by 60 per cent.¹⁸¹

In terms of environmental protection, Japan established a good example both at home and abroad. The Japanese government encouraged its companies to actively engage in renewable energy and sustainable growth of its energy investment. Japan JFE

¹⁸⁰ Japan and Myanmar signed contract for the development of Kachin and Chin States, 16 September 2015, Mizzima, <http://www.mizzimaburmese.com/article/4815>.

¹⁸¹ Japan and ADB cooperating to aid development of 4 townships in Mon State, 16 December 2015, Mizzima, <http://www.mizzimaburmese.com/article/8627>.

Engineering Company proposed to build the first ‘waste-to-energy’ plant at Yangon city. JFE would be responsible for the USD 1.65 million project from design to construction. After the completion of the project, it would burn 60 tons of waste materials per day and generate 700 kilowatt hours of electricity for daily consumption.¹⁸²

For other companies investing in Myanmar’s energy sector, CSR would be better implemented in companies from developed countries. Take the French company Total Corporation for example. It contributed to the implementation of CSR, particularly in environmental protection and society contribution since the Rio Earth Summit of 1992. Its flexible working plans sought to promote CSR through public and private partnership with its own Total Corporation Foundation. In addition to providing funds, the Foundation also contributed to the cooperation and communication among different stakeholders. Total Corporation also applied the highest standards in implementing CSR in challenging investment destinations through means of strict supply chain, environment assessment, safety inspection, and energy recycling.

¹⁸² Japan will build first-ever waste to energy plant in Myanmar, Mizzima, 5 September 2015, <http://www.mizzimaburmese.com/article/4214>.

When operating in Myanmar, Total Corporation created a Code of Conduct, stipulating CSR compliance by contributing to the socio-economic development of Myanmar.¹⁸³ Such compliance concentrated on protection of human rights, laws on labour, health, safety and environmental (HSE) performance, and environmental protection. Total Corporation even promoted CSR through hosting forums, and cooperating with governments and suppliers, the United Nations, etc. It also provided Myanmar's officials legal and technical training on human rights, refugees, as well as maritime and environment protection.

5.3.2. CSR practice by Chinese companies

Throughout the years, Chinese companies have been saddled with a relatively bad reputation for its investment activities in Myanmar. After the heavy blows caused by several investments in Myanmar, they resolved to improve but with little success. Based on data collected from interviews and media sources, there were major complaints over China's investment.¹⁸⁴ First of all, Chinese investments were accused of being irresponsible and environmentally damaging. Chinese invested heavily in Myanmar's energy sector, yet they neglected environmental assessment before and during the project. For example, the industrial waste from the Letpadaung Copper

¹⁸³ Response by Total: Myanmar Foreign Investment Tracking Project, Business & Human Rights Resource Center, <https://business-humanrights.org/en/response-by-total-myanmar-foreign-investment-tracking-project>

¹⁸⁴ For example, <http://burma.irrawaddy.com/article/2014/03/06/55850.html>

Mine was released to the nearby village, damaging the soil for farming and harvesting. Similarly for the refinery factory for the oil and gas pipelines, chemical sewage was directly released into Andaman Sea, harming water quality and fish stocks.

Second, Chinese companies were blamed for alienating the local people and depriving them of employment opportunities. In many contracting projects, Chinese companies only hired Chinese workers because the latter have better labour skills and faced fewer language and cultural barriers. The CNPC was said to employ far fewer local workers in the upper section of the Shwe pipeline than the Indian company in charge of the lower section (Walker, 2014). The influx of about 2,000 Chinese workers hired by CPI in Myitkyina for the hydropower project angered the local people because of the stiff competition for employment and the temporary supply shortage and price spikes (Yang, 2012). The Chinese workers and even the Chinese managers behaved badly towards the local people. They were ignorant of the cultural and religious importance to the Burmese society, and this resulted in more resentment against the Chinese investors and workers.

Third, Chinese companies were accused of non-compliance with Myanmar logging law and regulations. Myanmar's laws stipulated that wood and wooden products were allowed to be exported only through the river ports at Yangon. Foreign sales of logs

were banned completely in April 2014. However, the lucrative logging trade for both Chinese traders and border officers and the conflict-prone area controlled by the ethnic groups provided the opportunity for illegal logging and log-smuggling. In 2015, over 153 illegal Chinese workers were arrested for the illegal logging.¹⁸⁵ Unauthorised Chinese investments in jade and minerals exploitation were also common in northern Myanmar where it is too remote for the central government to regulate.

Last but not least, Chinese investment lacked transparency and was carried out under close contact with the military government, resulting in ignorance of the grassroots demands. Most of the investments in energy sector required land expropriation, and thus Chinese companies relied heavily on the brutal military government to launch the resettlement plan, resulting in inadequate compensation and the lack of sustainable planning for the community. For example, the Letpadaung Copper Mine project which resulted in the expropriation of 7,800 acres of land in 26 villages provoked a series of protests. Neither Myanmar's government nor the Chinese companies produced a long-term plan for the villagers who had lived on the land for generations. Another outstanding example, the protests and national objection against the construction of Myitsone Dam project with similar reasons: lack of transparency

¹⁸⁵ <http://www.economist.com/news/asia/21665030-chinese-firms-are-still-stealing-myanmars-forests-stumped>, accessed on 29 November 2016.

in the investment, unfair land expropriation, potential environmental degradation, and disrespect for the Burmese culture, and so on. The China-based NGO Green Watershed found that, even when the Chinese companies provided public goods to the local population, they usually did so through the unpopular military government, which resulted in limited benefits to the local population (Walker, 2014).

The suspension of Myitsone Dam project made the Chinese government and companies realise that the 'license to operate' was particularly important to China's investment overseas. With this realisation, the concept of CSR emerged in Chinese investments in Myanmar. On 5 July 2013, over 100 Chinese companies which invested in Myanmar hosted a press conference and also launched a proposal emphasising China's CSR implementation in Myanmar. In the proposal, the Chinese companies agreed to abide by the bilateral laws and regulations, strictly implement investments based on contracts, protect the environment, as well as enhance the employability and safety of the labour force.¹⁸⁶

The Chinese companies started their own CSR efforts. CPI distributed leaflets that promoted the benefits of its projects and also conducted a series of CSR surveys. The

¹⁸⁶ Zhongzi Qiye Miandian Meiti Jianmianhuiji (Zhu Miandian Zhongzi Qiye Changyishu) Fabuhui zai Yangguang Zhaokai, (Press for Chinese firms in Myanmar and the launch of Proposal for Chinese firms in Myanmar), Ministry of Commerce of China , 5 July 2013, <http://www.mofcom.gov.cn/article/i/jyjl/j/201307/20130700189127.shtml>, accessed 14 December 2015.

CNPC formed the Friends of the Sino-Burmese Pipeline Association, liaised with local community groups, and invited the civil society stakeholders to a meeting in Beijing. The CNMC Company agreed to become a member of the multi-stakeholder group of the Myanmar *Extractive Industries Transparency Initiative* (EITI) that is working to implement the EITI in the country.¹⁸⁷ Wanbao Mining began its environmental and social assessment by inviting an Australian consultancy company.¹⁸⁸

However, such attempts were made under the false assumption that the problems faced by Chinese companies originated not with the projects per se but with the lack of public understanding about these projects and the good deeds done by the Chinese companies. In other words, Chinese companies assumed that the local resistance against Chinese operations in Myanmar can be traced to weak Chinese public relations skills, civil society's resentment against the Myanmar military junta as well as the provocation by the Western NGO. Go Mingbo, the former head of the political section at the Chinese Embassy in Myanmar, boosted the image of Chinese

¹⁸⁷EITI Brief, Chinese Companies Reporting in EITI Countries, February 2016, <https://eiti.org/node/4916>, accessed 29 November 2016.

¹⁸⁸ Myanmar Yang Tse Copper, Letpadaung Copper Project, a brief on the draft ESIA report, 28 January 2014, <https://business-humanrights.org/en/myanmar-environmental-social-impact-assessment-for-letpadaung-mine-shows-high-risk-to-surface-groundwater-with-potentially-long-term-impacts-among-others#c97879>, accessed 29 November 2016.

companies by creating a Facebook account in Myanmar, even though Facebook is blocked in China.

There are more fundamental reasons which explain the weak CSR performance of Chinese companies in Section 4 (without these, the Chinese companies can be expected to repeat past mistakes).

5.4. Explaining two independent variables

5.4.1. Domestic background

Chinese presence in the international dam industry might be relatively new but it has increased rapidly in recent years (Urban et al., 2013). The Chinese role of funding hydropower in Myanmar is closely related to Chinese domestic development of hydropower, where China has made huge progress in technology breakthrough. China built more than half of the large dams in the world and continues to build more new projects each year.¹⁸⁹

For one thing, China's growing interest in hydropower lies in its economic growth and energy security. Dams have a critical role in achieving China's goal of generating 15 per cent of its power from non-fossil-fuel sources by 2020 (Reilly, 2013).

¹⁸⁹ There are three major hydroelectric projects on the upper level of the Mekong (Lancang) Rive, Salween (Nu) River and Brahmaputra (Yaluzangbu) River that China has been interested in developing.

According to the head of the Ministry of Environmental Protection, environmental degradation has become the top threat to China's domestic stability (Economy, 2010, p. 91). Because hydropower is driven by the water cycle and considered to be clean and renewable, China considers it as an alternative to the polluted coal plants. Through developing hydropower, China aims to offset some of the pollution and portray itself as an environmentally-friendly country (Yeh and Lewis, 2004). Song Tao, China's then vice-minister of MFA, told the Mekong River Commission in 2010 that building dams 'is an important step taken by the Chinese government to vigorously develop renewable and clean energy and contribute to the global endeavour to counter climate change' (Lee, 2010).

For another, investment in the dam industry overseas enables Chinese hydropower companies to grow without negative domestic impact (Urban, 2016). In recent years, reforms in the power sector have created a more pluralised industry, increasing opportunistic behaviour inside and outside of China (McDonald et al., 2009). The corporatisation of China's hydropower sector was followed by a surge in domestic and overseas dam building, as power companies quickly secured existing assets and developed new assets. A saturated domestic market could drive companies to look elsewhere while foreign markets provide an attractive alternative for those companies (International Rivers, 2008). Chinese hydropower companies, such as Sinohydro,

Datang, and CPI groups were involved in the construction of 367 dams overseas.¹⁹⁰

At the same time, the Chinese government actively encouraged companies to invest globally. In 2004, MOFCOM and MFA issued the *Guidance Catalogue on Overseas Investment Industries in other Countries (I)*. The Guidance stipulated that any type of firm which complies with the Catalogue and can prove to hold an overseas investment approval certificate shall be granted the priority to enjoy the state preferential policies such as loans, tax, foreign exchange, and export credit. China EXIM Bank had become a major funder of Chinese hydropower investments. With the national support, Chinese dam construction companies would be able to out-bid other foreign competitors and also operate at lower cost.

Accordingly, Chinese investment in Myanmar increased exponentially,¹⁹¹ and this involved mainly SOEs which were supported by the state export credits. Next in line were small and medium enterprises (SMEs) which subcontract projects from SOEs and provided mainly technical services, equipment supply, and so forth. Some of the SOEs which invested in Myanmar did not have the central government's approval due to the disqualification for application of investing overseas and other reasons.

¹⁹⁰ China Overseas Dam List (as of November 2014), International River, <https://www.internationalrivers.org/resources/china-overseas-dams-list-3611>

¹⁹¹ According to International Rivers, there are 43 Chinese funded dams in Myanmar updated on 10 November 2014, <https://www.internationalrivers.org/resources/china-overseas-dams-list-3611>, accessed on 20 June 2015.

The loophole in Chinese overseas investment regulations system facilitates the unregistered SOEs investments (Steinberg and Fan, 2012, pp. 234–235). Some of the Chinese small businesses did not follow official procedures and were registered under a local citizen's name or operated in a conflict area beyond the central government's control in order to evade restrictions on foreign investment in Myanmar. According to Winston Set Aung, these investors took advantage of loopholes in Myanmar's domestic regulations and were neither recognised nor protected by the investment laws (Aung, 2009). This phenomenon was also pointed out by MOFCOM in the *Investment Guide to Myanmar* released in 2009.

State-led overseas investment was widely accused of undermining governance, environmental, and sustainable policies (Cisse, Sven, and Andreas, 2014). The fact that Chinese dam construction firms did not keep transparent investment records can be attributed to the state-to-state deals. Generally, Chinese leaders from the State Council would sign the deals with leaders from foreign countries. As China's top government institution, the State Council would approve deals exceeding USD 2 billion in sensitive industries. The shortcomings of dealing solely on a state-to-state basis would be amplified by China's preference for working with volatile regimes, making China especially vulnerable to political turmoil as well as political accusation.

Realising the negative impact of its overseas activities, the Chinese government began to show interest in international experiences in implementing CSR for its dam investment (International Rivers, 2012). In fact, the CSR implementation of Chinese hydropower companies became a prerequisite, according to government policies. In 2003, China passed a new Environmental Impact Assessment Law, requiring companies proposing projects with significant environmental impact to conduct an environmental impact assessment (EIA) prior the project construction, and to obtain approval at the environment bureau.

The Chinese government also institutionalised public participation and displacement into its EIA law system. In 2006, Ministry of Environmental Protection (MEP) (then SEPA) issued Provisional Measures for Public Participation in EIA and Rules of Land Compensation and People Resettlement in Medium and Large Hydraulic and Hydroelectricity Projects. In 2007, the MEP and MOFCOM announced that Chinese exporters who caused environmental harm would have their export operations suspended.

In addition, financial organisations issued their own policies to improve the CSR of the companies (see Table 5.2). China EXIM Bank funded most of China's overseas dams by providing export credits, guarantees, and concessional loans. It issued the *Guidelines for Environmental and Social Impact Assessment of the China Export*

Import Bank's Loan Projects in 2007, requiring the project owner to submit governmental approval documents, particularly the environmental and social impact assessments, in order to obtain approval for the loan (Hensengerth, 2014, p. 237). According to the *Article 12* of the Guidelines,

Environmental impact assessment should be done during the pre-loan and loan-period review, and monitoring of environmental impacts should occur during post-loan management.... The host country's environmental policies and standards are the basis for evaluation. Offshore projects should abide by the requirements of host country laws and regulations and should obtain corresponding environmental permits. When the host country does not have a complete environmental protection mechanisms or lacks environmental and social impact assessment policy and standards, China's standards or international practice should be referred to....China EXIM Bank reviews the loan application documents submitted by the borrower, and will hire independent experts when necessary (International Rivers, 2012).

Table 5.2 China's environmental impact assessment regulations from 2003 onwards

Year	Legislation	Content
2003	Environmental Impact Assessment Law	Requirements for SEAs and EIAs
2005	Notice on Strengthening Environmental Protection during Hydropower Construction	Site Preparation EIA can commence without approval of the project EIA
2006	Provisional Measures for Public Participation in EIA	First details on scale of public consultation
2008	Guidelines for the Environmental and Social Impact Assessment of China Export and Import Banks' Loan Project	Social and environmental impact assessment is required for overseas projects, and that borrowers must follow laws and regulations of the host country.
2009	Regulations on Planning Environmental Impact Assessment	Standardisation of SEA administrative procedures
2011	Provisional Measures for the Evaluation of River Hydropower Plans and Environmental Impact Statements	Specification of criteria for the examination of EIA reports on hydropower plans
2012	Notice on Further Strengthening Environmental Protection during Hydropower Construction	EIA law and related legislation including those for public notification of projects and public participation are made applicable to hydropower EIAs. The Notice also stressed the importance of including the site preparation EIA into the project EIA.

Source: Adapted from Hensengerth, 2014 and "China EXIM Bank"¹⁹²

However, the activity on the ground failed to abide by the rules laid down on paper (Mang, 2015). Although Chinese institutions issued many advanced regulations, its capacity for implementation and supervision remained very weak. It is not specified who should regulate hydropower companies overseas and which domestic regulatory tools should be used for non-compliance. For example, MOFCOM issued the Guidelines of 2013 requiring Chinese companies to respect the local community and protect the ecology. Nevertheless, the punishment mechanism was absent for non-

¹⁹² <https://www.internationalrivers.org/campaigns/china-exim-bank>, accessed 19 November 2015.

compliance. Furthermore, the regulatory overlapping jurisdiction embedded in the domestic bureaucracy structure hindered consistent supervision over various aspects of overseas business activities. Several ministries were directly in charge of dam investment issues: Ministry of Water Resources, Ministry of Environmental Protection, and MOFCOM. However, there was no coordination mechanism among them to instruct the companies. For China EXIM Bank that funded most of the overseas dams, the overseas supervision proved to be ‘a really disappointing situation’ though the bank made progress in China, according to Peter Bosshard, a senior advisor in International Rivers.¹⁹³

Subsequently, the Chinese companies usually lacked experience in engaging civil society, including labour unions, which was an important reason for the low CSR performance. The governmental legislation on the disclosure of government information came into effect in 2008, and this created a mechanism for Chinese public to demand governmental information.¹⁹⁴ The regulation required government offices to release information on a timely and regular basis. Such regulations made it easier for the civil society to access information related to the procedures employed in dam projects. The Chinese environment-oriented NGOs grew in power and sought to influence China’s policy-making procedures. For example, the *Guidelines of 2013* by

¹⁹³ China's dams: both welcome and worrying, <http://www.thenational.ae/news/world/asia-pacific/chinas-dams-both-welcome-and-worrying>, accessed 16 December 2015.

¹⁹⁴ Regulation of the People's Republic of China on the Disclosure of Government Information, No. 492. 5 April 2007. http://www.gov.cn/zhengce/node_327.htm, accessed 13 June 2015.

MOFCOM and MEP were based on the recommendations by the Global Environmental Institute (GEI).¹⁹⁵ The Guidelines also created an opportunity for the Chinese civil society to obtain information on overseas investors that hold the latter responsible. The Chinese NGOs provided communication channels for the government and the local NGOs in the host country. The success of suspending dam construction on the Nu (Salween) River shows that the government consented to the participation of the public after seeking consultation from the Chinese NGOs and those residing along the Salween River from Thailand and Myanmar (International Rivers, 2008). Chinese NGOs also operated overseas as its companies did. In 2008, Chinese NGO Green Watershed and other Chinese organisations launched the Green Banking Innovation Awards in order to encourage banks to cover environmental protection when issuing loans for overseas investment.¹⁹⁶

However, Chinese NGOs still face challenges in influencing the policy making at home. They have limited financial support and experiences in cooperating with the SOEs and national banks that dominate the overseas investment. Although they have worked to push the government for more information on the activities of the overseas

¹⁹⁵ <https://www.internationalrivers.org/resources/chinese-government-guidelines-for-overseas-investment-7934>, accessed 11 January 2016.

¹⁹⁶ <https://www.chinadialogue.net/article/show/single/en/3825-Following-the-money>, accessed 28 December 2015.

Chinese companies, their success is undermined by institutional barriers of partnering with overseas NGOs, given the deep suspicion of the Chinese government.

5.4.2. Myanmar's CSR regime building

There are several levels of evaluation of Myanmar's CSR building: the political and legal framework for CSR establishment, local CSR networks, and the relationship between the two.

Myanmar's lack of a deep awareness of CSR stems from its long history of isolation from the international society. As Myanmar is a deeply religious country with the majority practicing Buddhism by acts of charity, many local companies and some international companies consider CSR as a form of philanthropy. The common people's donation and philanthropic activities benefitting businesses are treated as a common practice as a result of the Buddhist faith.

Before former president Thein Sein came into power, there was no CSR institutional framework. Myanmar was isolated from the advanced CSR practice by the Western companies due to sanctions. Infamous for its human rights violations and corrupted investment environment, the Burmese society suffered when the Western countries led by the United States imposed sanctions after the Saffron Revolution of 2007. Myanmar came to rely on China as its main trading partner and aid provider. During this period, all major political and economic decisions were made solely by the Cabinet and senior generals, according to the State-Owned Economic Enterprise Law, enacted in 1989, with neither participation of the civil society nor supervision from an independent body to ensure the accountability of the military junta. China was

granted with a large amount of contracts, especially in mining, oil and gas, power generation, and manufacturing sectors.

Bureaucratic red tape, arbitrary regulation changes, and endemic government corruption penetrated business activities in Myanmar. Before the reform in 2011, all existing regulations were subject to change at the will of the ruling generals. Investment decisions were strongly geared to benefit the Myanmar Economic Corporation (MEC) and Union of Myanmar Economic Holdings Limited (UMEHL) controlled by the generals. Foreign companies with an affiliation with the UMEHL or MEC received the proper business permits for setting up a joint venture. Given the lack of rule of law in Myanmar, there was limited evidence of the enforcement of CRS-standards, domestic laws regarding labour rights, environmental protection, or requirement.

After decades of isolation from the global economy, Myanmar embarked on a political and economic reform to spur its environment for economic development. Myanmar's government under Thein Sein addressed some of the challenges by diversifying foreign investment inflows, opening doors for the civil society, and improving its domestic institution for CSR to attract foreign investments. In 2012, Thein Sein signed a new Foreign Investment Law, indicating the commitment to align the country's practices with international standards. The *2012 Law* focuses on environmental protection and the development of clean and sustainable energy as important principles for foreign investment, which was absent in the 1988 investment law (Ryon, 2014). In order to improve the domestic investment environment, the government under Thein Sein worked actively with the West to establish a global

standard for investment. In November 2014, the United States, Japan, Denmark, Myanmar, and the International Labour Organization (ILO) formally launched the *Initiative to Promote Fundamental Labour Rights and Practices in Myanmar*.¹⁹⁷ This initiative was intended to improve relationships among stakeholders such as industry, labour, civil society, and the government. These foreign governments and ILO lent support to improve capacity building of Myanmar in the enforcement and administration on labour law issues, setting the foundation for promotion of CSR in Myanmar.

The push for CSR in business models came not just from the Western governments but also from Myanmar's government. Owing to an increasing vocal civil society and growing public objection to controversial and opaque business decisions in the previous military regime, Myanmar's government, especially the former president Thein Sein found it necessary to embrace the idea of CSR in order to maintain political stability and to carry out the economic reform.

As a result, Myanmar's government has made progress in building the CSR regime. The Myanmar Investment Commission (MIC) would require information about CSR. In some sectors, it became mandatory to carry out environmental and social impact assessment before obtaining project approval. In the recent example of the Letpadaung copper mine, investors were required to contribute a legally binding clause of two per cent of net profits for CSR implementation. In 2011, Myanmar's government passed the Labour Organisation Law, which for the first time legalised

¹⁹⁷ <http://www.whitehouse.gov/the-press-office/2014/11/13/joint-statement>, accessed 16 December 2015.

the formation of trade unions and allowed workers to go on strike. At the same time, the government also set requirements for employment age, wage rate, maximum working hours, and minimum wages.

The government also applied anti-corruption measures. Owing to a complex regulatory and legal system, low governmental salaries and incentives, as well as rent-seeking activities were common. Myanmar signed the UN Anticorruption Convention in 2005 but only ratified it in December 2012. In order to create a benign investment environment, the quasi-civilian government enacted an Anti-Corruption Law in 2013 which was implemented in February 2014 to mandate the punishment of bribery. In 2016, the newly-elected democratic government issued Anti-Corruption Rules, establishing the investigation board and Anti-Corruption Commission.

Myanmar's lack of transparency was prominent in regulatory and legal aspects. Myanmar ranked 147 out of 168 countries in the 2015 edition of the Transparency International Corruption Perceptions Index.¹⁹⁸ During Thein Sein's presidency, the government attempted to enhance transparency in the public sector by using websites to publish information online. For example, the government-run newspaper *Burma Gazette* disclosed business information more openly and frequently. Myanmar also became a candidate country in the EITI in 2014, an indication of its growing commitment to responsible investment and CSR principles. In January 2016, Myanmar's EITI (2016) National Coordination Office (NCO) submitted the first EITI

¹⁹⁸Corruption by Country/Territory. Transparency International, <http://www.transparency.org/country#MMR>, accessed 12 November 2016.

report.¹⁹⁹ Myanmar had not implemented the OECD Guidelines for Multinational Enterprises. However, in March 2014, the OECD and the Myanmar's government launched the OECD Investment Policy Review to promote business conduct and awareness of the OECD Guidelines.

The emergence of active civil society groups also spurred international NGOs to be mainly active in Myanmar's sectors such as environment, health, education, rule of law, and capacity-building. There were two waves of international NGOs entering Myanmar: the aftermath of Cyclone Nargis in 2008 and the political transition from 2011.²⁰⁰ Before the 2011, under the military regime's control, civil society organisations were subject to the harsh policies of the military regime, making it impossible to carry out any significant work. In the disaster of the Cyclone Nargis, Myanmar's government blocked foreign assistance from the outside. France even called on the United Nations Security Council to intervene with force under the Responsibility to Protect in international law. Amid the natural disaster, international pressure led Myanmar's government to finally allow international organisations to operate in the country. Many consider Cyclone Nargis as a turning point for the civil society in Myanmar (Saha, 2011; Morgan, 2014).

Under the government of Thein Sein in late 2011, the loosening of control over the media and NGOs provided the opportunity for the civil society to make rapid advancement. Despite the historical practice of restricting civil society, Thein Sein expressed willingness to relax restrictions on social, environmental, health, and

¹⁹⁹ <http://myanmarciti.org/content/myanmar-first-eiti-report>, accessed 12 November 2016.

²⁰⁰ Civil Society Briefs: Myanmar, Asian Development Bank, February 2015, <https://www.adb.org/publications/civil-society-briefs-myanmar>, accessed 17 December 2015.

education services. The year 2011 witnessed a vocal civil society protesting against companies or government-sponsored projects seen as violating environmental or social standards. Owing to intensifying public pressure, the Myitsone Dam project was called for suspension. In 2013, Myanmar released a revised Draft Law on Associations, to further lift restrictions on the activities of NGOs and associations. Under such circumstances, more and more civil society actors supported a CSR-environment for investment. The Union of Myanmar Chambers of Commerce and Industry (UMFCCI), the largest private sector association promoted the United Nations Global Impact (UNGC) and the CSR principle. In November 2015, Myanmar's Cabinet approved the EIA procedure, requiring investors not only to accept social and environmental protection but also to highlight transparency in their work. Self-monitoring projects and reports became a requirement for government assessment.

The election in November 2015 (the first transition to a democratic government) brought promises for transparency and anti-corruption that would transform Myanmar's politics and economy. However, numerous challenges prevent the establishment of an effective CSR environment in Myanmar.

First of all, despite the ongoing reform, Myanmar still lacked a clear and transparent process mechanism for CSR implementation. The *2012 Law* mandated that in addition to the government officials, the non-government servants must also have seats on the MIC. Such legislative change was aimed to improve the credibility of MIC by bringing non-government actors to oversee the process of assessing investment projects and enforcing the provisions of the foreign investment law. However, as the non-government members of MIC receive salary from the

government, the standards of independence and neutrality remain questionable (Ryon, 2014). Moreover, without an independent and accountable check, non-governmental members and the officials from MIC would remain vulnerable to bribery and corruption.

Second, Myanmar's judiciary is hardly equipped with an effective enforcement mechanism needed to ensure compliance of the law and CSR. As the government is still in transition for democratisation, historical problems such as the lack of legal infrastructure and technical capability still exist and much time and support for effective CSR implementation would be needed. Barriers to CSR implementation exist in the oil and gas sectors where former military generals still retain their power. The lack of legal infrastructure resulted in land-grabbing concerns, poorly enforced employment standards, and confused CSR plans. It is not uncommon for foreign companies to face complaints from the local communities about the inadequate consultation and compensation regarding land use. Although Myanmar launched the OECD Investment Policy Review to promote business conduct and awareness of the OECD Guidelines, it still lacks technical capacity to translate from policy to practice. According to U Tin Maung Than, the director of Myanmar Development Resource Institute, "The previous government issued many regulations related to doing business, which are not necessary and involve too many steps. Other countries conduct a regulatory impact analysis, but Myanmar's officials don't know how."²⁰¹

Third, Myanmar's civil society is beset with challenges even though it is playing an

²⁰¹ Business Worry Red Tape Will Remain an Obstacle Despite Reforms, *Myanmar Times*, 2 March 2014, <http://www.mmtimes.com/index.php/business/9717-businesses-worry-red-tape-will-remain-an-obstacle-despite-reforms.html>, accessed 17 December 2015.

increasingly active role in the government. Civil society is not equally developed in Myanmar. Civil society in the big cities is more aware of its rights and is better funded while the civil society in the remote areas continues to lack financial support and expertise needed to establish relations with the local government to protect their interests. The task of coordinating reforms adopted by different levels of government remains a key challenge, particularly in the remote areas where the central government has difficulty in monitoring reform. The CSR implementation was not well carried out by local authorities due to a lack of understanding of opening up the space for the civil society and their leadership's habitual ways inherited from military junta. It also remains risky for the civil society to work on certain political issues as it may be seen as a threat to the authorities. The military generals still retain the power of home affairs that form the backbone of the civil service: the police force and General Administration Department. In many cases, the military government used judicial processes to punish dissidents on issues such as land confiscation.²⁰² The media gained much more freedom of expression and advocated the presentation of authentic and neutral information to the business environment. Fewer restrictions on media have resulted in the fast spread of unchecked and inaccurate information that can easily lead to xenophobia and nationalism. This applies not only to the prejudice against minority ethnic groups but also to the foreign investors, resulting in hatred for the reforms as well as CSR implementation.

The development of CSR stopped at the level where a capacity void reached across the spectrum of the government and the economy required a complete reform. As the

²⁰² Burma Activists Urge Protest Law Reform, Irrawaddy, 25 November 2013, <http://www.irrawaddy.com/news/burma/burma-activists-urge-protest-law-reform.html>, accessed 17 October 2015.

country opens up to foreign investment, the new government is pursuing rapid reform while the civil society focuses on improving corporate behaviour and mitigating the negative impact of business. Unless complete reform is achieved, the country continues to face obstacles to economic development and CSR enforcement. Examples of obstacles include centralised bureaucratic practices, ethnic conflicts, outdated policies, and remnants of military rule.

5.5. Case Study

China invested in the construction of more than 25 massive dams on the Irrawaddy, Salween, and Sittang Rivers, with its SOEs taking the initiative in Myanmar. China's active involvement in Myanmar could be attributed to several factors. Myanmar's power sector was facing serious shortage, particularly when Western sanctions hindered technological and economic cooperation with potential investors, hindering its economic development. The military junta intended to improve the power shortage to strengthen its political legitimacy. Myanmar's demand for power development would complement China's Going Out Policy whereby Chinese companies can expand the international market to overcome barriers of a saturated domestic market. China viewed the dam investment as a 'win-win' for the two countries because China considered hydropower development as part of its goodwill in providing favourable concessional loans, development of the local economy, and transfer of technology to the host country. To China, the development of hydropower industry in Myanmar served as a boost to its economic and political influence in Myanmar.

As a late comer of the hydropower investor, Chinese companies did not have many options in the easily accessible and mature market. Instead, the investments were generally located in controversial and conflict-prone regions. Even China's Sinosure, a governmental body in issuing insurance for the overseas investment companies, placed Myanmar in the high-risk category²⁰³ for investment (China Export and Credit Insurance Corporation, 2007, p. 149). China's investments were vulnerable to political conflicts, ethnic issues, and even terrorism in these destinations. However, the Chinese companies relied on the state-to-state approach to safeguard their projects. Because of the elite-oriented approach, the local communities and NGOs were excluded from the deals, which resulted in the civil society's opposition.

The Myitsone Dam project was signed during the then vice president Xi Jinping's visit to Myanmar in 2009 (see Table 5.3). China Power Investment was backed by China EXIM bank of China. This project was contracted to CPI and the Asia World Company with close connections with the military junta.²⁰⁴ In addition, the Sinosure, the Construction Bank of China, and the Industrial Bank of China all entered into

²⁰³ Sinosure has nine rankings for referring the risk level of the investment destination. The first ranking indicates the safest while the ninth implies the most risky country. Myanmar is ranked eighth in the report.

²⁰⁴ The Myitsone Dam on the Irrawaddy River: A Briefing, International Rivers, 28 September 2011, <https://www.internationalrivers.org/resources/the-myitsone-dam-on-the-irrawaddy-river-a-briefing-3931>, accessed 17 December 2015.

negotiations for supporting construction in the Irrawaddy. When negotiations were finalised, other companies such as Sinohydro and Gezhouba were also involved as contractors.²⁰⁵

However, the vast scale of Chinese hydropower investment resulted in large-scale protests. Civil society in Myanmar was actively vocal in opposing the Myitsone Dam project. The Kachin Development Networking Group (KDNG) and Burma Environmental Working Group (BEWG), among other organisations, strongly opposed the dam project. As part of the Burma Partnership Network, they demanded community rights within the context of protecting the country's rivers from hydropower development. As early as 2009, the KDNG even sent an open letter to CPI to urge the company to stop the Myitsone Dam project and other dam projects in the Kachin State. The anti-dam sentiments began to appear in several influential social media such as *The Irrawaddy* (a local magazine) after Thein Sein relaxed media control. On 24 September 2011, famous environmentalists, meteorological experts, representatives of local residents from Myitsone, and the media gathered for a CSR seminar in Yangon.

Myanmar Affairs, a Myanmar public opinion survey and environmental protection agency, led a poll of 1,059 people in Yangon from 27 to 30 September 2011. Ninety

²⁰⁵ http://www.atimes.com/atimes/Southeast_Asia/NB07Ae01.html, accessed 18 December 2015.

per cent of the public objected to the Myitsone Dam project, while four per cent agreed, and six per cent said they had no idea. In addition, 79 per cent of the people believed that the project would damage national unity if it continued. For the solution of Myitsone Dam problem, 46 per cent of the people said that it should be re-surveyed by experts, and results were published and made known to the local population, before coming to a decision whether or not to continue.²⁰⁶

²⁰⁶ Myanmar Affairs, “The poll of Ayeyarwady Myitsone hydropower project”, *Myanmar Affairs Newsletter*,
http://www.myanmaraffairs.com/mmaffairs2015/sites/default/files/poll_pdf/2011_Survey/Opinion%20Poll%20on%20Ayeyawaddy%20Myitsone%20Dam%20Hydropower%20Project_Sept_2011.pdf,
translated by the Myanmar student in Yunnan, accessed 19 December 2015.

Table 5.3 Timeline for Myitsone Dam planning from 2006 to 2011

2006	December: CPI signed a memorandum of understanding with the Ministry of Electric Power No.1 of Myanmar
2007	May: Agreement to build the 7 dams was signed. June and July: Kachin Independence Organisation (KIO) chairman approached Yunnan Province State Council, head of state senior general Than Shwe and head of Myanmar Military Northern Command in Kachin State to express objection. December: Changjiang Survey, Planning, Design and Research (CSPDR) completed planning report for the feasibility of the hydropower projects.
2008	March: Terms of reference for the EIA were completed, and subsequently approved. December: Yunnan Power Investment Co Ltd was created for hydropower projects on the Irrawaddy. December 24: The <i>Biodiversity and Nature Conservation Association</i> (BANCA) and CPI signed an agreement to conduct an EIA special investigation.
2009	From January to July: Both Chinese and Myanmar experts conducted a special investigation on the upper Irrawaddy. October: The baseline environmental impact assessment by BANCA was finalised. December: Stage 1 (out of a total of 5 construction stages) began on the Myitsone Dam site. The resettlement of people had begun.
2010	March: CISPDR finalised the EIA Report. April: Four explosions occurred at the Myitsone Dam site September: 1994 Ceasefire Agreement between Myanmar government and the KIO was signed, while communications and cooperation were halted. KIO invited CPI to a discussion but received no response.
2011	January: Developers finalised the overall EIA for hydropower projects on the upper Irrawaddy. March: The chairman of KIO sent a letter to the Chinese leader. June: Fighting erupted, affecting the construction site. July: Full scale construction resumed. September 17: The Burmese government hosted a workshop to discuss the impact of hydropower projects on the Irrawaddy River September 30: Thein Sein suspended the construction of Myitsone Dam.

Source: Adapted from International Rivers and other media sources

The Myitsone Dam project remained highly controversial for social, economic, and security reasons. First of all, the consequences of the construction of the dam proved unfair to the local residents. The cost of the Myitsone Dam project was estimated at USD 3.6 billion and Myanmar's government would receive USD 54 billion for the project over the first 50 years of the project before the operation right would be transferred to Myanmar. Ninety per cent of the electricity generated by Myitsone Dam would benefit China while the remaining 10 per cent would be reserved for Myanmar's own consumption. Many Kachins were primarily engaged in agricultural production for their livelihood, and the reservoir affected the loss of 60 villages and approximately 15,000 people.²⁰⁷ When Myanmar's military government and the CPI announced that the hydropower project would benefit the local people, the positive news were undermined by a report stating that CPI hired approximately 10,000 workers from China to build the dam (Myint-U, 2011, p. 111). Moreover, Chinese companies imported all necessary equipment and construction materials from China, depriving the Burmese of opportunities for investment-related industry development. The Myitsone Dam construction would have an uncertain ecological and cultural impact on the local villagers. A massive reservoir, almost the same size as Singapore would be created as part of the project, posing potential ecological threats to

²⁰⁷Dam Forces Relocation of 60 Villages, Burma Rivers Network, 28 October 2009, http://www.burmariversnetwork.org/index.php?option=com_content&view=article&id=262:concern-over-forced-relocation-of-60-kachin-villages&catid=11&Itemid=46, accessed 17 December 2015.

biodiversity and livelihood of the local people. Important historical and cultural relics that represent the national heritage of Myanmar would be vulnerable too.²⁰⁸

Second, the project was strongly resented due to the lack of transparency and clarity. The CPI was found to hide the dangers and risks of the project from the public. China actually conducted an EIA on the Myitsone Dam in 2008 at the request of the Power Ministry, but it was not disclosed until the protests broke out in 2011. It was widely criticised for lacking an ‘alternative analysis’, proper consideration of downstream impact, the cumulative impact of the seven dams, and the absence of social impact assessment. It was found out later by the civil society groups that the Chinese company had concealed the findings and suggestions by the Burmese experts. Contrary to the CPI’s official report, the Burmese experts suggested replacing the Myitsone Dam with two smaller hydropower dams to preserve the ecology.²⁰⁹ The transparency also extended to the land expropriation. While the CPI was not directly involved in the forced relocation of villagers, it had links with the military government because the negotiating process was exclusively government-to-government and the public was kept in the dark.²¹⁰ The opposition against Myitsone

²⁰⁸ <https://www.internationalrivers.org/campaigns/irrawaddy-myitsone-dam-0>, accessed on 27 November 2015.

²⁰⁹ <https://www.internationalrivers.org/resources/the-myitsone-dam-on-the-irrawaddy-river-a-briefing-3931>

²¹⁰ BRN responds to interview on Myitsone dam by CPI president, *Mizzima News*, 5 October 2011, <http://www.burmalibrary.org/docs12/Mizzima-BRN-Dams.pdf>, accessed 27 November 2015.

Dam soon intensified. According to Aung, the leaked report is the flash point of public concern for the project.²¹¹

The CPI president and party secretary Lu Qizhou said in an interview that the suspension of the Myitsone Dam was not informed by the Burmese government.²¹² Even before the suspension, they were asked to accelerate the construction. Lu also explained how CPI had followed the legal process in China and Myanmar, how it had given full consideration to project safety, environmental impact, and resettlement of displaced communities, and how the economies of both countries would have benefited from the dam.²¹³ The Burma Rivers Network (BRN) refuted Mr. Luo's point and stressed that CPI was late in releasing the environmental assessment report and the process of resettlement was opaque. The Chinese company was also reluctant to interact with NGOs. For example, Li Guanghua, the president of China Power Investment Yunnan (CPIYN), expressed that it was unnecessary to get in touch with

²¹¹ <http://burmese.dvb.no/archives/15756>, translated by a student in Yunnan, accessed 19 December 2015.

²¹² President Lu Qizhou's Answers to Media about the Suspension of Construction of Myitsone Hydropower Station, 4 October 2011, *CPI News*, http://eng.cpicorp.com.cn/NewsCenter/CorporateNews/201110/t20111004_163111.htm, accessed 27 November 2015.

²¹³ <https://www.chinadialogue.net/article/show/single/en/4574-Lessons-from-the-Irrawaddy>, accessed 17 December 2015.

NGOs. He said, “The environmentalists are all well-fed and clothed, they are not the ones who need to improve their circumstances. There is no need to talk to them.”²¹⁴

Lastly, the construction of the dam heightened ethnic tension while China’s business interests were hijacked by the internal conflicts of Myanmar. The interests of the Kachin people in stopping the dam were not only due to the environmental and social impact but also due to territorial control against the Tatmadaw. Myanmar’s military government was seen as using the Myitsone Dam and other hydropower projects in the Irrawaddy River to justify sending troops into the region. While concerns over the dam building began as early as 2007 when it was just announced,²¹⁵ the first sign of armed conflict came in 2010, when Chinese workers died at the bomb blast at the site of Myitsone Dam.²¹⁶ In 2011, the chairman of the KIO wrote a letter to the then president Hu Jintao, warning that the Myitsone Dam project could even lead to civil war in Myanmar.²¹⁷ While the issue between KIO and the military junta was clearly a

²¹⁴ <https://www.chinadialogue.net/article/show/single/en/4852-Chinese-power-Burmese-politics>, accessed 26 December 2015. Yang Meng, 2 April 2012

²¹⁵ Five anti-Irrawaddy dam detainees freed in Myitkyina, Kachin News Group, 16 November 2007, <http://www.kachinnews.com/news/326-five-anti-irrawaddy-dam-detainees-freed-in-myitkyina.html>, accessed 13 December 2015.

²¹⁶ Four killed, 12 injured in bomb blasts in Irrawaddy-Myitsone dam site, 17 April, 2010, Kachin News Group, <http://www.kachinnews.com/news/1512-four-killed-12-injured-in-bomb-blasts-in-irrawaddy-myitsone-dam-site.html>, accessed 13 December 2015.

²¹⁷ KIO warns China: Myitsone Dam could spark ‘civil war’, May 20, 2011, *Mizzima*, <http://archive-1.mizzima.com/special-29517/myitsone-dam-controversy/5295-kio-warns-china-myitsone-dam-could-spark-civil-war>, accessed 13 December on 2015.

domestic affair, the Myitsone Dam became a rallying point against invasive Chinese investments as their opinions were not included in the state-to-state deals.

The building of the Myitsone Dam was not without its domestic reasons. First, CPI was born from the reform of the China Power Corporation in 2002. It operated as a Central SOE directly under the leadership of the SASAC. This connection implied that the Chinese government had a major influence over the investment decisions of the CPI. The president of CPI Lu Qizhou would also be a member of the National Committee of the Chinese People's Political Consultative Conference, which advised the National People's Congress. Given Lu's position on the Committee, he enjoyed connections with the government. Given such connections and the importance of energy security, it would be no surprise that CPI invested in the Myitsone Dam project. Yu Xiaogang, the founder of Watershed, referred to the domestic state-business relations in a comment on the China model. China's large SOEs had significant resources and huge capital and this marginalised private companies. SOEs enjoyed domestic monopoly and had no worries about the costs of conducting CSR. They also did not have to worry as much as the private companies about the environmental and social impact of their operations in Myanmar.²¹⁸

²¹⁸ Yu Xiaogang in Liao, Ruo, Lessons from the Irrawaddy, China Dialogue, 10 October 2010, <https://www.chinadialogue.net/article/show/single/en/4574-Lessons-from-the-Irrawaddy>, accessed 26 November 2015.

Second, domestic competition led to the extensive hydropower venturing in Myanmar. In the past two decades, Chinese companies were involved in the construction and investment in many dam projects as well as power plants in Myanmar. For example, the China National Machinery Corporation signed three contracts with Myanmar to provide equipment for generating electricity for the Kun and Kabaung Hydropower Plants and also for the Yeya Hydropower Project. China's Gezhouba Group participated in the construction of hydropower projects in Yeya and Tasang as well while providing equipment for hydro-electricity generation to the Papun, Shwe Gin, and the Tasang Hydropower project. Li Guanghua, the CPIYN's president, explained the investments in Myanmar, "There are over a dozen Chinese firms, including CPI, working on hydropower in Myanmar we may be based in China, but we compete in Myanmar-almost always with other Chinese firms, and fiercely." ²¹⁹

Behind each leading SOE, there were various subsidiary Chinese companies involved in the Myitsone Dam project. For example, in the project of Dapein Power Plant, the Sinohydro Corporation was in charge of the construction, while the Datang Corporation and Central China Power Group were investors. The Jiangxi Provincial

²¹⁹ Li Guanghua, in Meng, Y., Chinese Power, Burmese Politics. China Dialogue, 2 April 2012, <https://www.chinadialogue.net/article/show/single/en/4852-Chinese-power-Burmese-politics>, accessed 26 November 2015.

Water Conservancy Planning and Designing Institute were in charge of the design and impact survey of the project.

Third, the building of Myitsone Dam was a reflection of China's belief and experience of reliance on hydropower for its own domestic economic development. By the same token, the development of the Myitsone Dam would greatly benefit Myanmar's economy and accelerate industrialisation. According to Li Guanghua, the president of CPIYN,

The 10 percent of electricity given to Myanmar is equivalent to two gigawatts, and the entire country only has three gigawatts of generating capacity. And if that is not enough, CPI will give priority to meeting Myanmar's needs...we are just doing business and it is nothing but good news for Myanmar. Over a century, there will be one trillion Chinese yuan of profit to Myanmar.²²⁰

Given the importance and the amount of Chinese investment in the Myitsone Dam project, the Chinese government intervened by calling for action from both the CPI and Myanmar's government. On the one hand, while the Chinese government was aware of the negative impact of its companies' overseas activities and the need to improve corporate behaviour (McDonald, Bosshard, and Brewer, 2009), the Chinese companies in charge of the dam construction and design failed to fulfil the

²²⁰ Ibid.

international standard of environmental and social impact. The Chinese official Guidelines on Chinese business activities overseas gave the following warning:

China's companies ...should actively work with the local society participate in social welfare and build some small projects benefiting the Myanmar people, in order to get support from the places where the construction project is located and to ensure China's investments' and projects' steady and sustained development.²²¹

On the other hand, the Chinese government urged Myanmar's government to address the suspension issue. Hong Lei, China's spokesman for the Foreign Ministry, noted that the dam had undergone thorough examination by specialists in both countries, and urged Myanmar's government to 'protect the legal and legitimate rights of Chinese firms abroad'. According to Li Guanghua, the president of CPIYN, Myanmar's government did not accuse CPIYN of not complying with the EIA and SIA procedures, and CSR implementation. He implied Myanmar's government

²²¹ Chinese Academy of International Trade and Economic Cooperation of Ministry of Commerce, Investment Promotion Agency of MOFCOM, Economic and Commercial Counsellor's Office of the Embassy of China, Duiwai Touzi Hezuo Guobie Zhinan (Miandian), Guidelines for Overseas Investment and Cooperation in Other Countries and Regions (Myanmar), 2014, pp. 66 and 69, <http://aaa.ccpit.org/Category7/Asset/2015/Mar/13/onlineeditimages/file71426207826381.pdf>, accessed 28 November 2015.

assured them that the responsibility of suspension was not on the Chinese side, but it was Myanmar's own difficulty.²²²

There were also voices demanding for the reassessment of the relationship between China and Myanmar. They believed that the suspension of the Myitsone Dam project was not due to the poor CSR standards implemented by the Chinese companies. Instead, they held the internal political conflict and ethnic conflict in Myanmar accountable for the Chinese loss. They also believed that the suspension was indirectly caused by the Western conspiracy to contain China by provoking tensions between China and its neighbouring countries through supporting NGOs and media (Zhang, 2012; Chu and Huang, 2016).

The CPI thought that it was taking responsibility by following the agreement with Myanmar's government. Therefore, Chinese companies tended to think that as long as they followed the domestic laws and rules of Myanmar's government, they would be acting as a responsible investor (Soe, 2016). However, what most Chinese investors tended to overlook is that the decades of dictatorship instilled in the Burmese people a deep mistrust for their government. Any foreign company that

²²² <http://www.cec.org.cn/xinwenpingxi/2013-08-16/107538.html>, accessed on 28 December 2016. China Electricity Council.

would only deal with the government but ignored the local society would be at risk of condemnation from the Burmese people.

In fact, the sponsor of the Myitsone Dam project for CPI, China EXIM Bank, failed to supervise the activities of CPI in terms of assessing the EIA and SIA for providing loans. The CPIYN conducted the EIA according to the requirement (*Guidelines for the EIA and SIA of China EXIM Bank's Loan Project of 2008*) mandated by China EXIM Bank even though EIA is not mandatory in Myanmar.²²³ The *Biodiversity and Nature Conservation Association* (BANCA) said, "Regarding hydropower development of Irrawaddy (Ayeyarwady) River, we should appreciate China's concern on EIA and should refer to their EIA procedure".²²⁴ However, it proved that the Chinese company did not strictly follow the Guidelines as it was found out that the CPI also did not wait for the EIA to be finalised before commencing construction and resettlement. Construction began in December 2009, three months before the final EIA was reportedly available to CPI from Changjiang Institute of Survey, Planning, Design and Research (CISPDR) in March 2010.²²⁵ Local people were asked to relocate by the authorities at the start of the EIA while the Social Impact

²²³ The Myitsone Dam on the Irrawaddy River: A Briefing, <https://www.internationalrivers.org/resources/the-myitsone-dam-on-the-irrawaddy-river-a-briefing-3931>, accessed 25 December 2015.

²²⁴ <http://burmese.dvb.no/archives/15756>, translated by a student in Yunnan, accessed 19 December 2015. Aung 2011

²²⁵ <https://www.internationalrivers.org/resources/the-myitsone-dam-on-the-irrawaddy-river-a-briefing-3931>, accessed 17 December 2015.

Assessment was omitted during the resettlement. During the process of relocation, there was no specific long-term arrangement for the local people's living arrangements (Soe, 2016: pp, 144-176), despite the fact that the company had paid compensation to the villagers.

Although the Chinese institutional setting improved after the application of environmental and social impact assessment, China EXIM Bank's failure to act as a supervisor for the CPIYN implied that there was still a gap for actual implementation. It was found that staff of financial institutions still viewed environmental protection under the jurisdiction of the MEP in China and the local government's responsibility if the investment was overseas (Liu, 2016).²²⁶ To the Chinese banks, loan repayments outweighed issues such as environmental protection. Moreover, China EXIM Bank lacked accountability and transparency in issuing loans. The CPIYN received the financial support from the bank even before submitting the EIA and SIA reports. When protests broke out, China EXIM Bank did not respond to questions.

To be fair, the CPI did carry out certain forms of CSR, though mainly in philanthropy and infrastructure building. From 2009 to July 2011, in addition to the construction of new resettlement houses, the CPI donated a large amount of study supplies and school uniforms to students, malaria-preventive medical kits, television sets,

²²⁶ Personal communication, Beijing, 7-8 December 2015.

allowances, as well as rice and cooking oil to all the villagers affected.²²⁷ Moreover, the Chinese company also built roads, bridges, telecommunication stations, hospitals, temples, and churches for the resettlement of the local people. However, the CPI failed to publicise its activities timely online until the suspension of the Myitsone Dam project. Some people believed that Chinese companies lacked public relations skills in reaching out to the local people, taking blame away from China's inept CSR practice. Even the president of CPIYN Li Guanghua claim of 'just do but not say it' led to more misunderstanding towards Chinese investments.²²⁸

After the suspension of Myitsone Dam project, the company official website showed that its CSR activities became more diversified even though philanthropic activities still dominated CSR implementation.

Their activities included the following:

➤ flood relief²²⁹

²²⁷ Canyu Gongyi Shiye, Lvxing Shehui Zeren, (Participate in Philanthropy, Fulfil Social Responsibility), <http://www.cpiyn.com.cn/Liems/site/zeren/zerenNews.jsp?nid=6827>, accessed 15 April 2016.

²²⁸ Xinhua Wang: Chongqi Zhongmian Hezi Misong Dianzhan Husheng Jianqi, (Xinhua Agency: Emerging Claims to Restart co-funded Myitsone Dam), http://www.spic.com.cn/mtbd/201309/t20130906_222956.htm, accessed 29 December 2015.

²²⁹ Luo YongChan and Zhang Ruogu, Guojia Diantou Xiang Miandian Shuizai Diqu Tigong Zhenzai Jiuzhu, "CPI participated in the flood relief of Myanmar", <http://www.cec.org.cn/hangyewenhua/qiyeyshehuizerenbaogao/zhongdiantoujituangongsi/2016-08-26/157547.html>, accessed 2 December 2016.

In August 2015, the company contributed MMK 2 million to the disaster area and visited the Magwe Region to distribute relief supplies together with the China Embassy in Myanmar. The CPI handed over MMK 50 million of relief to the Ministry of Electricity of Myanmar despite the suspension of the Dam project. At the end of August, the company provided rice valued at MMK 4.2 million to two newly relocated villagers.

➤ malaria disease investigation and medical services ²³⁰

The CPIYN launched a 100 per cent malaria-eradication campaign in Myanmar. By fumigation, providing malaria prophylactic drugs and mosquito nets at the project site, hotels and other public areas, the medical team achieved its goal. This is the fourth time in two years that the company provided malaria-disease investigation and medical services to the local population.

➤ ACHC Scholarship award ceremony ²³¹

The scholarship award ceremony was launched in 2013 in order to support education opportunities for the local people. A total of MMK 5.61 million was awarded to 163 students by the end of 2015.

²³⁰ Jituan Gongsu Jianxing ‘Yidaiyilu’, Zuo Fuzeren Quanqiu Gongmin, 16 Aug 2012 http://www.spic.com.cn/ttxw/201608/t20160811_266402.htm, accessed 26 September 2016.

²³¹ Ibid.

With the suspension of Myitsone Dam project, the Chinese government and companies realised the importance of the ‘license to operate’ to China’s overseas investment and thus the concept of CSR emerged in Chinese investments in Myanmar. The CPI actively courted the villagers and NGOs, in the hope of restarting the project and re-establishing its reputation in Myanmar. The CPI directly engaged different stakeholders, Myanmar military government, the NLD, Kachin government, civil society groups such as 88 Generation Students Group, the media such as 7 days, and the general public such as the representative of the villagers. Starting in early 2012, the CPI distributed pamphlets disclosing the design of the dam and the impact of the dam. In April 2012, Lu Qizhou visited villagers in Kachin State to negotiate with the environmentalists, and offered an extra year’s worth of free electricity and rice in exchange for support for the project to continue.

As a Chinese company in Myanmar, the CPIYN was the first to release a detailed CSR report. Despite absence from the UNGC,²³² the CPIYN issued the 2010–2012 CSR Report, borrowing the advanced standards of the UNGC and Global Reporting Initiative (GRI).²³³ In this report, the CPIYN acknowledged its shortcomings in

²³² CPI was a member of UNGC in 2009. However, it was removed from the membership in 2014 due to communication problems, <https://www.unglobalcompact.org/what-is-gc/participants/2076-China-Power-Investment-Corporation>, accessed 3 January 2016.

²³³ Yijiang Shangyou Shui Dian Youxian Zeren Gongsì 2010–2012 Nian Shehui Zeren Bagao (Upstream Ayeyawady Confluence Basin Hydropower CSR Report from Year 2010–2012) 25 Dec 2013. <http://www.cpiyn.com.cn/Liems/site/zeren/zerenNews.jsp?nid=8813>, accessed 28 December 2015.

communicating and cooperating with the local society, given the restrictions set by the military government. It also acknowledged the negative impact of the dam project and provided scientific solutions for crisis management. Moreover, the report provided detailed information on a large number of areas such as project planning, environmental protection, safety management, quality control, social security, long-term vocational training for the relocated villagers, and employability development. The Report even adopted the assessment from the third party to increase transparency.

In October 2015, a company official from CPIYN commented that the company already invested USD 800 million on the Myitsone Dam project for the following:²³⁴

- The soil and water flow assessment at construction sites for Myitsone, Chipwe, Lasa or Maliyan Hydropower plants
- EIA for the total construction of dam sites
- A dam construction on the Chipwe stream that flows into the Maykha River
- Relocation and compensation expenses for households living at watershed areas after dam construction
- Miscellaneous expenses

²³⁴ <http://www.mmtimes.com/index.php/business/16882-cpi-calculates-cost-of-myitsone-dam.html>, accessed 28 November 2015.

The Chinese NGOs also circulated news of the anti-dam movement to the Chinese media with limited success (Yeophantong, 2013). The Chinese representatives from NGOs such as Green Watershed based in Yunnan also conducted investigations regarding the Myitsone Dam project. The Chinese NGO GEI helped to arrange an informal visit by a vice-minister from the Chinese Ministry of Environment Protection to attend a one-day workshop organised by EcoDev in Myanmar. As an alternative to the state-to-state relationship, the citizen-to-citizen exchange created a more transparent and acceptable mechanism for the information exchange.

‘Meet-the-press’ gatherings and the CSR Report gained some positive feedback. However, a persistent complaint was that many Chinese companies appeared to be operating under the assumption that the problem did not lie with the projects per se but with the lack of public understanding about these projects, or with the lower levels of scientific knowledge on the part of Myanmar’s citizens. Such ideas were unlikely to win over the local population. The majority of Burmese would not accept the Myitsone Dam project and similar projects on economic or environmental grounds. In March 2016, 61 civil society organisations, political parties, and religious groups released a statement calling for a halt to all resource extraction in the Kachin State until conflicts were resolved.²³⁵ At the same time, ethnic civil society

²³⁵ Kachin Groups Urge Halt to Resource Extraction in Northern Burma, *The Irrawaddy*, 8 March 2016, <http://www.irrawaddy.com/news/burma/kachin-groups-urge-halt-to-resource-extraction-in-northern-burma.html>, accessed 17 March 2016.

organisations and environmental activists with local communities joined the International Day of Action for Rivers and Against Dams in the eastern border where Chinese investments were involved in many projects along the Salween River across Shan, Kayah, and Karen states.²³⁶

Nonetheless, questions concerning the capability of Myanmar's government in monitoring Chinese business activities arose, despite ongoing political reforms. After Myanmar's government established the Myitsone Dam project investigation commission in 2016 and visited Myitgyinar for inspection in September, 53 NGOs in Kachin State submitted a proposal that had five statements requesting the committee to stop the Myitsone Project completely.²³⁷ According to the interviewee, one of the reasons for perpetual termination was that the local people had doubts about the Burmese government's financial, intellectual, and political capacity to monitor the business activities. The roles of the governmental agency were not yet defined as the government was still in the transitional phase. Moreover, Myanmar's government lacked the enforcement mechanism for non-compliance. The local people believed that Myanmar still has a long way to go in eradicating corruption in businesses.²³⁸

²³⁶ Salween in Focus for Burmese Civil Society on Rivers Day, Irrawaddy, 15 March 2016, <http://www.irrawaddy.com/news/burma/salween-in-focus-for-burmese-civil-society-on-rivers-day.html>, access 17 March 2016.

²³⁷ Translated by a student in Yunnan.

²³⁸ Burmese scholar, personal communication, Yunnan, 26 December 2015.

Lobbying for the Myitsone Dam project and other Chinese investment, Hong Liang joined a CPI team visit to the dam site in January 2016 to make public relation improvement. However, such an initiative witnessed a resumption of local protests: anti-dam building protestors, protests against the Letpadaung copper mine, and other two new projects in the Dawei oil refinery and Kyaukpadaung SEZ (Baker, 2016; French, 2016).²³⁹

The former head of the political section at the Chinese Embassy in Myanmar Gao Mingbo said, “The companies must retain the support of the local communities. That has been the consistent message of the embassy: to be open, to be engaged.” However, such message failed to permeate China’s companies. The Chinese-owned North Mining Investment Company, which is developing a USD 480 million nickel mine in Chin State, appeared to repeat past mistakes of Chinese firms. The company had no office in Myanmar, website or public channel to be reached (Walker, 2014).

To be fair, one should acknowledge that Chinese investments were treated with bias by the civil society. Under-developed civil society in Myanmar did not have the financial or technical resources in communicating and establishing a professional

²³⁹ Nick Baker. 3 May 2016. Dawei residents protest against \$3 billion oil refinery, Myanmar Times, 3 May 2016, <http://www.mmtimes.com/index.php/business/20090-dawei-residents-protest-against-3-billion-oil-refinery.html>; Erik French, Risks loom for Myanmar’s Kyaukpadaung Economic Zone, Global Risk Insights, 24 January 2016, <http://globalriskinsights.com/2016/01/risks-loom-for-myanmars-kyaukpadaung-economic-zone/>, accessed 18 November 2016.

relationship with the government and CPIYN. They also lacked knowledge on verifying news and sources regarding CPI's activities. Some organisations slandered CPI as participating in illegal activities such as panning for gold or stealing livestock of the villagers that are forbidden in Myanmar. When the CPIYN invited the local media and conducted interviews to investigate the truth, CPI became a scapegoat.²⁴⁰ Some Chinese interviewees said, given China's vast scale of investment in Myanmar, companies with Asian faces are easily mistaken as Chinese companies. The non-compliance of the local laws and regulations were the result of Myanmar's corrupted and backward investment environment. But the local people remained unaware of the truth and thus only trusted the Western media and NGOs which aimed at containing China's investment.²⁴¹ However, approaching communities with the idea that the Burmese people are uninformed, ignorant, or pro-West will only further damage the business reputation of Chinese companies.

5.6. Conclusion

The suspension of Myitsone Dam project highlights the need for Chinese companies to deal with key weaknesses in their business model. Before the political transition that started in 2011, Myanmar barely had CSR regime. Chinese weak CSR performance was a result of heavy-reliance on the corrupted military regime, lack of

²⁴⁰ Yijiang Shangyou Shuidian Youxian Zeren Gongsì Shengming (Declaration of Upstream Ayeyarwady Confluence Basin Hydropower Co. Ltd).
<http://www.mhwmm.com/ch/NewsView.asp?ID=16616>, accessed 11 November 2016.

²⁴¹ Anonymous, personal communication, Yunnan, 17 December 2015.

transparency, and isolation from the civil society. China's weak supervision from domestic institutions also hindered the efficient CSR implementation.

The suspension of Myitsone Dam project had become a watershed for China to start to work with different sectors in Myanmar, especially the local communities and NGOs. After 2011, a rapid emergence of the civil society in Myanmar demanding for CSR has forced Chinese companies to improve investment CSR performance. CPIYN even adopted advanced standards in its CSR reporting. More importantly, Chinese government has begun to reassess its domestic institutions and closely monitor the investment activities of its own companies. The Chinese companies respond to the Chinese government's call for implementing CRS in areas such as improving investment transparency, enhancing environment and labour protection, as well as increasing technology and skills transfer.²⁴²

Amid the transition of Myanmar's government after the election, ethnic conflict, and border stability, many challenges remain. Chinese investments would continue to be subject to the instability of Myanmar's politics and its limited capability in creating a fair and transparent environment for foreign investors. Only concerted efforts in

²⁴² Guangsheng Lu, *Misong Shijian Yilai de Zhongmian Guanxi* (China-Myanmar relations after 'Myitsone Dam' Suspension), *Lianhezaobao*, accessed 29 October 2015.

improving the CSR supervision and enforcement from both Chinese and Burmese sides can enforce strict CSR compliance among Chinese companies.

6. Chapter Six – Conclusion

By focusing on China's CSR performance of its SOEs in general, and on cases in Indonesia, Vietnam and Myanmar in particular, this thesis attempts to answer the research question: Why does China have a relatively weak record of CSR implementation in Southeast Asia, despite its effort in issuing laws and regulations for overseas investment performance? Building upon an analytical framework, this thesis concludes that, unlike most of the accusations levelled against China's investments as mercantilism, Chinese CSR performance is a product of domestic institutional deficiency and the low level of CSR development in the host country. In this chapter, a summary of findings is presented in Section 1, followed by the explanation of causal relationship reflected in the cases in Section 2. Section 3 provides policy suggestions while Section 4 ponders on the future research.

6.1. Summary of Findings

Based on previous chapters, there are several major findings in this thesis.

First, the Chinese state is not as strong as it appears and it has too many institutional shortcomings to direct its companies to act in a more responsible manner. In order to fulfil China's economic and security goals, the central government provided massive financial and policy support for SOEs to strike deals overseas. Most of the existing literature builds arguments on the assumption based on the mercantilist nature of China's hunger for energy as a strong state by exporting its own weak governance to the host country. These studies unconditionally support the fact that the weak status

of Chinese CSR performance is the product of China's demand for energy over governance. While the traditional state-centred analysis provides a useful point to understand Chinese overseas investment, this approach does not adequately explain the reality. Three cases in countries of Southeast Asia illustrate how the Chinese government pushed its companies towards greater responsibility to remedy the country's image-deficit but stopped at the level of enforcement. Whenever the host government lacked sufficient means and political will for CSR building, the Chinese companies would seek for loopholes to reduce the costs of implementing CSR.

Second, even though the central government has embraced the idea of CSR and regulated the overseas business activities, the legacy of China's fragmented institutional structure and incomplete political reforms continue to hinder the effective implementation and supervision of its overseas CSR performance. There is no supervisory body that coordinates the functions across the state agencies, financial institutions, embassies, and host countries.

There are different regulatory government agencies that have different interests connected with different SOEs. The conflicting interests impede effective coordination among governmental bodies. Moreover, Chinese bureaucratic ranking exacerbates the fragmented industry regulation, where some central SOEs have strong connections with the ministry or where NDRC enjoys the ministerial-level treatment. In terms of the overseas investment, Chinese embassies have limited bureaucratic authority to supervise the companies and to protect Chinese business and reputations.

In the financial sector, while China has adopted financial guidelines such as the

advanced Green Credit policy for banks to issue loans to the companies, strict implementation is still rare. To cope with competition, banks place priority on commercial returns over CSR enactment. Moreover, the fragmented institutional structure prevents the state from having a standard for the banks to disclose data on loans either. The environmental departments share corporate environmental performance records with the financial sector. However, there are no requirements for the financial institutions to provide the governmental agency with information on corporate loans. The banks themselves lack the technical expertise to investigate environmental information. The voluntary nature of the Green Credit scheme creates problems when it comes to implementation. The banks lack statistical standards because data on polluting industries are unclear and inconsistent and this affects the comparability and accuracy of banking data. This one-way communication makes it difficult for the government to monitor CSR performance of the companies.

Third, there is little evidence of Chinese companies' application of a grand strategy to boost Chinese government's CSR-improvement attempts. The major barriers to the overseas CSR performance include the absence of institutional incentives and penalties to improve management responsibility, the lack of personnel support and professional training, and the lack of experience with civil society.

Officials in charge of SOEs are subject to evaluation for political promotion. The domestic institutional arrangement gives priority to profits and taxes over overseas environmental and community problems. Priorities are given to areas such as

fulfilling political tasks granted by the government and settling investment profits in the short term. Owing to the nature of short-term appointments of officials in charge of SOEs, they are unlikely to undertake large-scale prospecting projects that take longer than their term to come to fruition, and the outcome of consistent CSR only pays off after a certain length of time. Owing to a lack of CSR strategic planning and systematic management, most CSR practices are randomly carried out without consideration of efficiency.

For the private companies, the unfair domestic market monopolised by the state sectors forces them to downplay the CSR standard due to inadequate financial support. The ICBC and other banks have already stopped making new loans to small-scale steel, concrete, or paper firms, and are gradually pulling out from existing loans. According to the ICBC's chief risk officer Mr. Wei Guoxiong, even if small-scale companies could pass the environmental impact assessment, the bank would still be unwilling to grant loans (Si, 2010). Therefore, some company managers believed that CSR implementation created extra financial burdens as they did not have timely assistance to counter such financial challenges.

Chinese companies do not have the necessary experience to deal with the civil society and this hurts their CSR performance overseas. Unlike developed economies where civil society plays the role of watchdog and advocator to monitor companies'

behaviour, China's public awareness of CSR is still in its infancy. Chinese companies overseas also lack detailed analysis of the complexities of operating in countries with different culture. Instead, the Chinese companies still rely on the Chinese government because the host country lacks efficient coordination and enforcement of CSR directives. Chinese investors are supporting philanthropic projects in the local society, but most of them do not know how to ensure that the local people enjoy maximum benefit. Besides, they need expertise for solving communication problems. Therefore, the international notion of CSR has not diffused into the Chinese business culture.

Fourth, the under-developed CSR regime in Southeast Asian host countries is vulnerable to the institutional spill-over effects from Chinese companies. For Southeast Asian countries, especially the developing ones, economic development is the first strategy to reduce the hunger, poverty, unemployment, and malnutrition issues. Even though some companies are willing to embrace CSR, their attempts to implement CSR are hindered by limited finance, manpower and political will. Corruption is another barrier to the CSR enforcement in Southeast Asia. In some society, bribery is accepted as common practice in business and daily life.

Although civil society appears vibrant in challenging the state, the role of civil society in Southeast Asia is weakened by the presence of strong authoritarian states in political economy. Some countries view CSR as Western values and ideas that are hostile to local culture and religion. It is especially so when the NGOs involved in

CSR are supported or influenced by the international organisations such as Asian Development Bank and Western multinational companies which have established a strong foothold in Southeast Asia.

Last, there is a wide gap between the perceptions of Western and Chinese analysts about China's overseas investment impact on destination countries. A majority of Western media carries three main criticisms against Chinese investments: (1) weak sense of social and environmental responsibilities among Chinese companies, (2) influx of Chinese immigrants, and (3) opaque deals with the host countries. Chinese investors are also accused of working with authoritarian regimes that undermine international effort to improve governance in the host country.

On the contrary, the Chinese side perceives Western criticism as an attempt to block Chinese investments. The Chinese companies consider themselves as law-abiding: working within the framework of mutual respect, seeking to comply with the laws and regulations of the host countries, bringing development benefits, paying increasing attention to the CSR, and learning how to cooperate with international society.

There is a difference between Chinese style and Western style in CSR implementation. Western style usually changes in the presence of market competitiveness and NGOs; Chinese companies are pushed by the government. The Chinese policy approach towards developing countries and towards Western countries differs, despite Chinese relative openness to international standards. A

striking distinction is this: Western-based development investment focuses on soft areas such as governance and institution building in the host country; China specialises in the hard areas such as construction of infrastructure.

6.2. Applying the Analytical Framework to the Case Studies of Chinese CSR

These findings are well illustrated in the case studies presented in this thesis. China's implementation of CSR is hindered by low-level CSR development in the host country and Chinese domestic shortcomings, and this complicates Sino-Southeast Asian relations.

In Indonesia, PetroChina's CSR behaviour was the institutional spillover effect of its own domestic deficiency. After economic reform, business returns became the top priority of the company. PetroChina should have reconsidered its profit vis-a-vis the cost of CSR activities. PetroChina tended to borrow its domestic experience of working with the higher bureaucratic level of government to safeguard its investment while overlooking grassroots demands. Therefore, PetroChina approached Indonesian governmental officials who had higher decision-making power. Because of this elitist approach, PetroChina appeared passive in approaching the local community and NGOs. In cases such as resettlement, monetary compensation dominated the form of CSR implementation. Isolated from the civil society, PetroChina did not have any understanding of the needs of the local community and so it linked CSR fund

allocation to contribution to community development. When PetroChina was charged of irresponsible activities such as pollution, there was neither timely nor efficient Chinese government organ such as the Chinese Embassy in Indonesia to monitor business malpractices. Even the headquarters in Beijing failed to monitor the business impact brought by PetroChina in Indonesia. The CSR report of PetroChina rarely provided comprehensive details because it selectively focused on the positive impact of the operation. Without the third-party to assess the CSR report, the reporting system in PetroChina's CSR lacked independent and neutral feedback, and this aggravated the problem of the lack of transparency.

Indonesia's relatively weak CSR regime also provided space for PetroChina to implement weak CSR. The limited Indonesian government understanding and technical knowledge of CSR caused unnecessary intervention and inefficient coordination by different layers of governmental bodies, leaving PetroChina confused about CSR implementation. CSR compliance is legally required but the enforcement of CSR Law and regulation of business activities remains rather weak. Indonesia has a relatively weak and unorganised civil society, leaving NGOs without accountability and capacity to function as a government watchdog. Moreover, the rampant corruption in Indonesia's business arena exacerbates the establishment of an effective CSR environment for the foreign companies. These challenges from PetroChina's

domestic institutions and Indonesia's under-developed CSR would define the parameters of its CSR grand challenges approach.

Vietnam's case demonstrates the Sixth Group of CREC's series of law violations and very bad records of non-compliance. This is a result of both China's domestic institutional deficiency in monitoring its companies overseas and Vietnam's weak CSR development to supervise the business activities of Chinese companies.

The economic reform of the construction industry made it one of the most liberalised yet least regulated sectors of China's economy. After the reform, fierce competition forced construction companies to place business returns as their top priority and they were lured by loopholes for corruption and red-tape opportunities created by the incomplete bidding system. More seriously, the market became distorted because most of the bidders adopted an irresponsible business strategy of reducing the bidding price and lowering the quality of the project. SOEs' subsidiaries also competed against one another. The Sixth Group competed among other subsidiaries among the CREC by offering lower-cost plans. To reduce the costs in the sky train project, it commissioned subcontractors to carry out the project even though these subcontractors often faced technical and financial issues and did not have much policy support by the state. The subcontractors repeatedly sacrificed the quality of the

project and neglected labour welfare as mandated by the Vietnamese government in order to reduce the costs, while the Sixth Group failed to monitor the procedure.

The overlapping but fragmented supervision system back in China also weakened the capacity for monitoring Chinese business activities. Different government agencies issued regulations and standards without a punishment mechanism for non-compliance. The supervisory role of the Chinese government was absent when accidents occurred during the operations of the project. When the Vietnamese government issued a letter to the Chinese Embassy, there was no response to the public. No Chinese government agency stepped out to acknowledge responsibility either. In addition, there is no CSR report on the project in Vietnam to be made available to the public. Therefore, transparency remains a serious problem in the Sixth Group's operations and crisis management.

The Vietnamese government lacked technical capabilities and work experience in mobilising resources for regulating the behaviour of the Sixth Group. Corruption undermined CSR implementation in Vietnam, resulting in low-level transparency, weak governmental accountability, and inadequate supervision system. Despite serious law violations and accidents, the Vietnamese government seldom took action to punish the Sixth Group. Instead, monetary penalty dominated the main problem solution. With a highly limited role of the civil society in Vietnam, the public

participation in the CSR is rarely seen in the sky train case, and this resulted in the failure to monitor the foreign company and the government.

The suspension of the Myitsone Dam project highlights concerns over China's hydropower investment in Myanmar, Myanmar's civil society, and Myanmar's government transition to civilian rule. It is also a warning sign of the local resentment against Chinese investment which lacked accountability and failed to make a sustainable contribution to the local society.

Reform in the Chinese power sector created a more pluralised industry and the domestic fierce competition forced Chinese hydropower companies to go overseas to secure new assets. Myanmar would be an ideal place for CPI to invest not only because of abundant water resources but also because of the economic sanctions imposed by the West. Therefore, CPI is accused of lacking transparency in striking the dam deal because its elitist approach was considered as volatile by the Myanmar's military government. Although CPI carried out certain forms of CSR, it lacked sufficient experience in engaging civil society in Myanmar. This is because they relied solely on the authoritarian military junta for compensation distribution and resettlement plans: The CSR plan must operate within the scope made by the Myanmar military government. Therefore, transparency is questionable in CPI's CSR implementation.

Before the suspension of the Myitsone Dam, there was little specification as to which governmental agency ought to regulate the overseas hydropower companies and the regulatory and punishment tools for non-compliance. There was no consistent CSR report except for records of philanthropic activities undertaken by CPI. Even the funder for CPI's investment, China EXIM Bank failed to supervise the activities of CPI in evaluating the EIA and SIA for loans. The relocation of the villagers started even before the SIA was finished. Although environment impact assessment was not required in Myanmar, CPI released the report late, adding to the suspicion over its transparency in investment.

After the suspension of the dam project, Chinese government became active in assisting CPI and other Chinese companies to upgrade their CSR activities in Myanmar. In fact, China made gradual improvement by institutionalising the reduction of the environmental and social impact of its overseas investment. It even incorporated public participation and displacement into the law, which creates an opportunity for the Chinese NGOs to obtain valuable information on overseas investments. Accordingly, the Chinese NGOs working on environmental protection could influence the government and banks with information and suggestions. After the declaration of the suspension of the Myitsone Dam project, Chinese NGOs helped the Chinese officials to engage with Myanmar's civil society.

Before the civil government came into power, Myanmar was corrupted, inefficient, and known for its bad records of human rights violation. CSR was beyond the military government's agenda. Currently, despite ongoing reform, the absence of a transparent environment makes it difficult for Chinese companies to implement CSR in Myanmar. Myanmar's institutions remain vulnerable to corruption, while its judiciary system is short of an effective enforcement mechanism to ensure compliance, especially in areas where military generals still retain their power. After the military government loosened control over media and civil society activities, the civil society from all walks of life pushed the government to suspend the dam project with their technical knowledge, financial support, political bargaining power, and human resources. Accordingly, the political changes happening in Myanmar forced CPI Yunnan to be transparent and accountable for its investments. Thereafter, the Chinese company issued the CSR report in 2013, adopting the advanced international standard with the third-party's feedback.

Endowed with the strategic interests in pursuing energy, CNPC and CPI were encouraged to compete internationally. CREC, struggling with other similar SOEs in China's liberal construction industry, had limited national subsidy to fund its overseas activities. Given that China is still an authoritarian regime where its SOE managers are part of the state cadre system, economic behaviour of these SOE managers will generate diplomatic and even political consequences in cross-border relations. Their non-compliance or low-level CSR implementation became evident when the problems of ineffective monitoring and enforcement encountered protests and

resistance in the host countries. The development and changes in the host countries forced the Chinese investors to be more transparent, open, and accountable. In examining three case studies of Chinese companies in different Southeast Asian countries, the problems which Chinese investments created could only be solved by Chinese companies adopting international CSR practices.

The analytical framework of this thesis can be applied to explain China's overseas investments in other countries. To understand China's weak CSR performance, it uses a dual-level analysis to explain China's model of CSR implementation: (1) shortcomings of Chinese domestic institutional and (2) under-developed level of CSR building in the host country. A change to any factor in this framework can affect CSR performance. If China's domestic institutional environment improves and CSR enforcement is improved, China's level of CSR performance should also improve. By the same token, if the host country has a stringent requirement for the foreign companies to carry out advanced level of CSR, Chinese companies should also follow accordingly.

6.3. Prospects and Suggestions

As China continues to promote its influence through economic tools, China ought to learn corporate governance lessons from past negative records of implementing CSR. There are several aspects for China to draw lessons from past negative experiences.

At the state level, the role of the state should transform from an active participant to the designer and arbiter of neutral, transparent rules for market activities. This transformation can only be reached by restraining state control over the economy and by integrating accountability into the relationship between the state and business (Milhaupt and Zheng, 2016).

The Chinese government ought to incorporate the legalisation of overseas investment into its domestic environmental management institutions. Although the Chinese government has made advanced policies and directives such as Green Credit Directives that require the companies investing overseas to obey the local laws and customs and to communicate with the local civil society and carry out CSR, its implementation is still far from satisfactory. China has mainly invested in extractive sectors of developing countries with weak governance and poor record of governmental supervision and regulation. In fact, it is these countries that demand for investment with favourable clauses to attract foreign investment inflows without much consideration for environmental and social impact. Consequently, it would not suffice for Chinese companies to obey the local laws and customs if the investing destination showed weak governance. The Chinese state should improve CSR standards and incorporate overseas investment policies and regulations into its state environment regulations and laws. The Chinese state should intervene to punish non-

compliance whenever the overseas project does not CSR standards and cause a negative impact on the local community.

For the Chinese enterprises, there are several aspects to pay attention to. Owing to limited knowledge of the potential and benefits of CSR, CSR-related activities generally face shortage of human resource and capital support. Some Chinese companies lagged behind in setting up specific CSR consultancy group for environmental protection and public relations. While it is true that China had no experience in carrying out CSR, Chinese companies were also far from establishing a sound performance assessment system. Some companies depended solely on the managers dispatched overseas even though they had limited CSR expertise and knowledge. Some SOEs which prioritised short-term profits for personal interest in performance promotion could not properly implement CSR (KMPG Global China Practice, 2013). In these cases, the reporting duty had to be undertaken only by the public relations department of the company or even the third-party agency which had little decision-making power. Moreover, CSR reporting generally lacked neutrality and independency. The state would also need to encourage industry associations and NGOs to make industrial code of conduct to complement legal and administrative intervention from the state.

Chinese companies overseas would also need to clearly define procedures to establish an effective complaint handling system before commencing the project and to keep all stakeholders informed and discuss project updates. This would prevent the local community and NGOs from attacking the Chinese companies should they fail to get the local government to take action. They also need to change the perception of CSR from giving material compensation to sustainable growth of the community. Chinese companies often link their contribution to the construction of infrastructure (hospitals, roads, and schools). They overlook the need to cooperate closely with the community to map out the compensation and development plans that would benefit the local people, instead of the local elites.

Chinese financial institutes often provided direct loans to the investors (usually Chinese SOEs), instead of non-recourse financing or limited recourse financing. Therefore, they faced fewer risks of default because the clients are mostly SOEs. However, the Chinese financial institutes should adopt advanced standards and practices of environmental and social risks management policy to supervise and direct their clients in fulfilling CSR obligations. Stringent punishment tools should be imposed in the event of failing to meet CSR requirements.

The Chinese government made a commitment to deepen domestic reforms by giving more weight to market mechanisms, and issuing more supportive policies to

encourage Chinese companies in the One Belt One Road (OBOR) strategy. In this context, stringent CSR compliance will credibly project China's image as a responsible power. China's OBOR strategy can provide opportunities for China to develop a common code of conduct for sustainable growth by applying existing international standards such as the Equator Principles. Chinese leading banks that provide loans would also need to explore the potential of establishing a common code of conduct based on current practice.

Nevertheless, ensuring the well-being of local communities and the protection of ecosystems affected by resource development schemes should not be solely China's responsibility. Host countries' governments should also be held responsible. The host country's commitment to devise and enforce laws and policies that force foreign investors to be diligent in meeting standards of sustainability and CSR remains critical. Frequently, developing countries, with their lax regulations and vested political interests, proved to be equally complicit in supporting poorly-designed projects with little concern for their social and environmental ramifications. Although the Chinese state often encourages its companies to abide by the local laws and regulations when implementing CSR, the fact is that regulations and laws in these host countries are weaker than China's. Therefore, China should take the opportunity to improve its environmental and social impact record by adopting and ensuring compliance with worldclass practices and international standards such as Equator

Principles for banks. The Chinese government should also encourage its companies to cooperate with NGOs. What is more important, China should carefully monitor Chinese overseas investments and implement its own regulations to prevent malpractice.

6.4. Future Research

This thesis aims to provide a deep understanding of how the domestic institutions of the home country and the CSR infrastructure of the host country influence the CSR implementation of multinational companies.

The author believes that the thesis sheds light on China's economic statecraft in the CSR framework by looking at an often-neglected segment in which the activities of the business actors are important in the state-to-state relations. It answers the critical question of why Chinese CSR performance is relatively weaker, despite the advancement of the state's legal and political mandates. The thesis, written based on the empirical observation in Southeast Asian countries, has identified common problems facing Chinese investors at different levels of CSR development in the host country. The research outcome increases the understanding of China's 'Going Out' and provides insights to improve the current situation of China's overseas investment both for the Chinese government and the target country in the context of the OBOR strategy.

Clear signs of deepening Chinese involvement after the issuance of China's OBOR strategy, along with the establishment of AIIB, make the study of China's CSR implementation more important. While the OBOR strategy shows promise for Chinese companies grappling with domestic overcapacity and barriers to investment, institutional challenges remain. In particular, the management system for optimising the efficiency of ODI is still lagging behind the pace of ODI itself. Considerable social backlash surfaced in response to the investments by Chinese companies, especially when the investments are located in strategic sectors.

In this regard, future research is required in the following aspects. First, more theorization of China's CSR performance is needed. In the literature review, theory building is rather weak. Although this thesis does not aim to build a holistic theory as it mainly aims to propose an analytical framework, it can provide a useful perspective for future theoretical building. Scholars interested in this area will be able to build upon the analytical structure and move towards more theorization.

Second, as president Xi Jinping is determined to continue with domestic economic reform, it will be interesting to observe how the Chinese CSR performance is changing in accordance with the ongoing reforms. As the leadership requires the national companies to 'Grow Bigger and Stronger', it remains to be seen if the economic capacity can be translated into capable and effective CSR implementation.

It is also important to assess the relationship between China's CSR performance and its image in the host country to assess whether the improvement of China's CSR will contribute to the changing perceptions of China's image. As China has laid out its OBOR strategy, more area studies along OBOR such as Central Asia should be carried out to compare Chinese CSR performance. All in all, this thesis believes studying Chinese CSR in its economic diplomacy will be an promising area to understand China's political economy.

China is not different from other countries that aim to use economic means to foster a long-term relationship with host countries. China will become a more confident investor as long as its investment policy proves useful for realising its economic statecraft to boost domestic economic growth and international influence. Moreover, instead of concentrating on conventional resources, China is diversifying its investment portfolio. As China pursues sustainable development, it expects to improve its overseas CSR performance. However, in order to maximise its domestic resources and translate them into effective economic statecraft, further reforms of its economy and politics are required to achieve consistent and stringent behaviour overseas.

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