

Opportunities and Challenges for Socially Responsible Business in China

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ABSTRACT

This thesis aims to demonstrate the unique circumstances that China poses for the development of socially responsible business in China. Socially responsible business is a concept that has emerged in Western nations in recent years, due to the growing environmental and social consciousness of consumers and their increasing demands for companies to meet higher standards in this regard. Socially responsible business refers to those corporate entities that use the market to stimulate change in peoples' awareness of and attitudes toward a certain social issue and, ultimately, consumer behavior and habits. China's irresponsible corporate environment has resulted in harmful and threatening consequences, and the development of socially responsible business is needed to reverse this unsustainable trend. This thesis identifies the key drivers of socially responsible business, surveys the state of those drivers in China, and draws conclusions about the likely evolution of socially responsible business in China in the coming years. The conclusions demonstrate the important roles that different actors must take for this evolution to take place. The Chinese Communist Party recognizes the need for change within the corporate world, yet its rhetoric and regulations regarding corporate social responsibility are vague and do not have the institutional support for implementation and enforcement. Civil society, a medium through which socially responsible business has developed in other nations, is growing with the environmental and social awareness of citizens, yet still remains closely monitored and restricted by the government. Ultimately, Chinese consumers will be the key to reversing the irresponsible business environment, just as they have been in other nations. We are already beginning to see the roots of this movement with consumers expressing that they are no longer willing to accept the status quo; however, they must channel these demand into their purchasing decisions

in order to truly incentivize the Chinese business community to become more socially responsible.

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I. INTRODUCTION

Within the past decade, Chinese consumers have encountered a myriad of environmental health scandals, the types and number of which are unthinkable for those of us accustomed to cleaner living environments. Some of the most alarming incidents include the discovery of pig carcasses in the often-consumed water of the Huangpu River, the contamination of baby formula that sickened an estimated 300,000 Chinese babies and most recently, the warehouse explosion in Tianjin. Unfortunately, the health scandals and environmental damage that Chinese consumers have witnessed over the course of China's rapid economic growth stem largely from the issue of a socially irresponsible business environment. China's socially irresponsible business culture developed in the 1980's, after the country had opened up to the world and began acting as the engine for the global supply chain. Eager to gain a piece of the pie that was China's economic boom, some businesses pursued a quick and sizable profit at the expense of responsible social and environmental measures. The government is also to blame for directly exacerbating this "growth at all cost" mentality. Government rhetoric focused solely on China's economic miracle and a lack of government regulations or enforcement mechanisms demonstrated that the government did not see the containment of irresponsible corporate behavior as a priority.

An era of irresponsible corporate behavior in China lay in sharp contrast to strides in corporate responsibility in the United States, at around the same time period.

As educated consumers came to demand higher-quality products and greater transparency with regard to production practices, they placed increasing pressure on businesses to take on a mission other than mere profit maximization. At first, businesses responded by adopting an elementary form of corporate social responsibility, often by giving donations or participating in other charitable acts. In the past decade or so, a more powerful (and meaningful) movement of business for social and environmental good has developed in the emergence of a socially responsible business model. For these businesses, social and environmental progress is at the core of their strategy and purpose. The lifestyles they advocate to consumers are demonstrative of their brand identity and values, which often revolve around the promotion of a healthy body, mind, and world. An example that may resonate with most is Patagonia, the outdoor gear and clothing company that donates 1% of sales to environmental groups and consistently works towards reducing their environmental footprint in all stages of production and distribution.

It may be surprising to learn that this same company, Patagonia, has nine production facilities and nine stores in China currently. Patagonia is not alone in its quest to invest in the Chinese market, either. The Honest Company, a brand of natural and non-toxic mother/baby care products, is among other socially responsible businesses that seek to do the same. The dynamic of a socially responsible business with a green agenda operating successfully in China's socially irresponsible business environment is perplexing, as one can imagine the considerable obstacles it would face to maintain its core values in a country where environmental damage and labor exploitation have been historically rampant.

Do these businesses have the contextual support in China that they need to flourish, just as they have in the United States? How do specific factors of contextual support for socially responsible business- namely government policy and laws, consumer demand, and civil society- function in China? In turn, how could the growth of corporate social and environmental responsibility shift the status quo not only within the corporate sector, but for each of these corresponding contextual factors as well? These are the key questions I have sought to answer in this thesis research.

This thesis begins with an introduction to the concept of socially responsible business in its different forms (primarily in the United States, as CSR has flourished there). To contrast the positive developments of socially responsible business in the U.S., I will then explore the complexities of China's socially irresponsible business environment through the lens of the global supply chain. The third part will take a closer look at the two areas where consequences of China's corporate irresponsibility have become most severe: the environment and labor dynamics. These are also areas where the need for development in corporate environmental and social responsibility is the strongest and, as such, an explanation of recent changes and potential opportunities for future change are included for each area. A fourth section will address the question of how the same factors that contributed to the growth of socially responsible business in the U.S. (the "factors of contextual support") play out in the China context today. Each contextual factor will be examined vis-à-vis the environment and labor dynamics in China. Finally, the conclusions of this extensive analysis will project the necessary developments for China's sustainable growth in the corporate sector.

II. WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

The concept of corporate social responsibility has spread widely among developed countries in recent years, as educated consumers have come to demand greater quality and transparency in the production process. A global infrastructure has emerged, by way of various kinds of institutions that now hold companies responsible for their positive and negative impacts on society. These institutions include organizations dedicated to verifying the accuracy of company environmental and social governance (ESG) reports, consulting groups that guide companies' sustainability initiatives, watchdog groups, corporate responsibility rankings, and the Global Reporting Initiative which acts as a standard framework for social responsibility reporting (Waddock 8). These institutions are important in upholding higher standards of business and demonstrating that social responsibility is not merely a passing trend in the corporate world. Business membership organizations with a focus on corporate sustainability are another type of institution that have gained considerable attention in recent years. "Benefit corporation" and "B Corp" (not the same) are two of the most well-known socially responsible business membership organizations in the United States, and companies that achieve either of those memberships can assure consumers that they have met higher standards with regard to labor rights, environmental impact, supply chain sustainability, and much more. As Waddock states, these companies "are changing the system by creating different—and higher—expectations around corporate practices and performance (106).

Corporate responsibility has also emerged in several different forms of business, which are oftentimes confused by name, but which are important to distinguish from one another. Socially responsible businesses are defined as corporate entities that use the market to stimulate change in peoples' awareness of and attitudes toward a certain social issue and, ultimately, consumer behavior and habits. A socially responsible business (SRB) offers a safer and/or healthier product alternative, while utilizing marketing tools to bring attention to a certain social or environmental issue and lifestyle changes that can counteract the effects of that issue. At the same time, the business incorporates social goodness into its market strategy through continuous interaction with and support of non-corporate entities whose missions align with the company's values.

The Honest Company's mission and foundation illustrate the socially responsible business model. The founder, Jessica Alba, created the company to provide a non-toxic alternative to other mother/baby care, personal, and household products containing harsh chemicals. Alba knew that combatting the issue of weak chemical regulations through the formation of a non-profit lobbying group would require much effort with likely little impact. Instead, she chose to create a for-profit business model with a social focus (Forbes). The Honest Company provides mothers and babies with safe products while simultaneously highlighting other important practices for a healthier mind, body, and world. The company brands its products as natural, non-toxic, and transparent with regard to their true ingredients and labeling (unlike competitors, who may engage in false advertising and make products that contain unsafe ingredients). The Honest Company also has a blog that educates

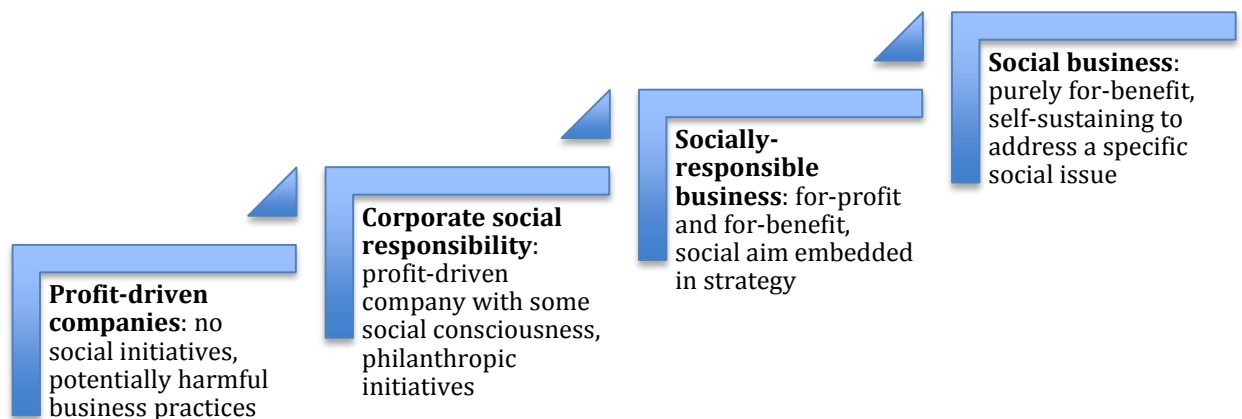
consumers on many different aspects of wellness. Lastly, the company has close partnerships with Baby2Baby, an NGO that provides basic necessities for children from low-income families, and other organizations that do social good relating to mother and baby care.

The distinction between socially-responsible business, corporate social responsibility, and social business is crucial; all three are forms of business for social good, but they hold different intents. On the following spectrum, companies with no regard for environmental or social needs are at one end and the social business model is at the other end. According to Saatci and Urper, social business is social-benefit-maximizing and only raises profits in order to expand the business and keep it self-sustained. A social business does not pay its investors dividends, and it often aims to solve social problems through the entrepreneurship of poor and marginalized people (63). A prime example of social business, and one of the most well known cases, is Muhammad Yunus's Grameen Bank, which provides microcredit loans to help people become financially self-sufficient. Corporate social responsibility (CSR), by contrast, refers to initiatives by profit-maximizing firms to benefit stakeholders by addressing a set of environmental or social problems. The term CSR is often used interchangeably with socially responsible business; however, CSR initiatives have historically leaned more towards philanthropic acts and the company does not have a social focus at the core of its business strategy.

On this spectrum, CSR would be placed between purely profit-driven companies and socially responsible businesses. An example of CSR is Mickelson ExxonMobil Teacher's Academy, which trains 500 third and fifth grade teachers to

motivate students to study and pursue careers in math and science areas. These philanthropic acts may have an important impact, but they can be more public relations-driven and used to offset some of the less laudatory business practices. Due in part to the rise of a global institutional infrastructure surrounding the social responsibility of corporate entities, the shift from CSR in the form of philanthropy to a more committed form of socially responsible business can now be seen on a global scale. Companies recognize that a socially responsible business strategy is increasingly vital to their long term growth and success.

Spectrum of Socially Responsible Business



Not included on the spectrum above is “social impact investing,” which relies on the concept of ethical consumerism to facilitate investments in social enterprises/social businesses. Ethical consumerism is based on the notion of “dollar voting,” that people can utilize their individual purchases to support brands and companies whose ideologies align with their own values, and can thereby shape the

markets themselves. Consumers may be familiar with environmental, social, and corporate governance (ESG), which is to not purchase products or services from companies with harmful environmental and social practices, but the more proactive side of this is social impact investing, which is still an emerging field in even the most developed countries. Consumers that participate in social impact investing are actively supporting companies that do sustainable work for environmental and social good, through their individual investments (Nielson, Huffington Post).

The definitions of these forms of socially responsible business vary according to the context in which they are discussed. Since very little business in China has extended beyond the profit-maximization outlook, the terms “corporate social responsibility,” “socially responsible business,” and “social and environmental responsibility” are used interchangeably in this paper to refer to all business practices that aim for environmental and/or social good. The socially responsible business model discussed previously, whereby environmental and social missions are embedded in corporate strategy and operations, would have significant positive impacts in both China and the United States. Unfortunately, as can be seen in the following section, standards within the Chinese business environment are so low that the concept of a “socially responsible business” could even refer to a company that abides by the minimum environmental and social regulations.

III. THE GLOBAL SUPPLY CHAIN

Theoretically, globalization and foreign direct investment inflows should make China's business environment subject to the higher standard of social and environmental responsibility derived from many Western nations. Specifically, multinational corporations with supply chain operations in China would ensure that suppliers are held to the same standards of social and environmental responsibility that they advertise to their eco- and social-conscious consumers. However, the reality is quite different. Over the course of several decades that China has acted as the engine to the world's supply chain, the "race to the bottom" phenomenon that is discussed at the beginning of this thesis also consisted of frequent non-compliance on the part of suppliers. This is still a critical issue today, and the resulting violations have led to many horrific factory accidents and scandals associated with the very brands whose products we use on an everyday basis. Perhaps the most well-known example of this is the ongoing series of Foxconn scandals within Apple iPad and iPhone factories resulting in worker suicides and deadly factory blasts.

Multinational corporations issue standards of social and environmental responsibility upon first engagement with a supplier, often in the form of a "code of conduct" or a list provided by a partner NGO (Lin 89). In addition, these corporations complete auditing practices done by both internal groups and third parties. Finally, corporations issue supplier responsibility reports annually, although the substance of these reports is questioned because they tend to focus on initiatives rather than actual

impact reduction (CITI Index 3). Thus, MNCs do make some efforts to improve the production process in their supply chains (if only to satisfy external demands by Western consumers and environmental and social groups). Nevertheless, these practices are insufficient in meeting the most rudimentary aim to comply with social and environmental regulations.

The nature of the issue lies in the divisive relationship between corporate and supply chain operations. The supplier might keep corporate surveillance at bay by double-booking (falsifying records). In the most tragic cases, the company is aware of the violations, but is so enormously successful that they do not intervene. In a *New York Times* article exposing the destructive practices of an Apple-Foxconn factory in Chengdu, Nicholas Ashford, former chairman of the National Advisory Committee on Occupational Safety and Health, commented that “what’s morally repugnant in one country is accepted business practices in another, and companies take advantage of that.”

Rampant social and environmental violations by suppliers occur for three primary reasons: intense competition within the Chinese supply market, subcontracting that is not regulated by the corporation, and consumers’ lack of action to demand that production be conducted lawfully.

Intense competition within the Chinese supply market: Competition for foreign business among Chinese suppliers is predicated on highest possible production rates and lowest possible production costs (in other words, extreme profit maximization techniques). This perpetuates the short-term outlook of supplier firms in

their operations, even leading them to see the lives of their workers as replaceable. This reckless behavior is not only an issue of ethics, but also puts business operations at risk of serious liabilities. It is easy to see the suppliers as the culprit, but corporate policies exacerbate the situation even further. Supplier firms only gain a slim portion of profits, causing them to slash costs at the expense of safety. Orders to meet high demand and carry out fast delivery of new products puts an inordinate amount of pressure on suppliers as well. Chinese laws dictate that the maximum amount of working time for employees is 44 hours per week, and 36 hours per month of overtime (Schneider and Schwerk 41). In many cases of supplier violations of labor rights, factory operations will run 24 hours and workers are forced to sleep in three-hour sleep/work shifts. Examples of typical environmental health violations that arise from high levels of competition and cost-cutting include the improper disposal of hazardous waste and the use of inferior ingredients or materials in production.

Frequent subcontracting: The supply chain becomes even more convoluted once the suppliers hire their own suppliers, taking control over production even further out of the hands of the “focal firm” (the name in academic literature for the corporation making the investments). Even if the first supplier’s contract with the MNC forbids subcontracting, suppliers will violate the contract to enact two, three, four-tier subcontracting systems to keep costs low. In the end, the corporation may have very little control (or knowledge) about the makeup of the products (Knowledge@Wharton).

Lack of consumer action to oppose harmful production practices: As explained further in the section on labor issues in China, workers of Chinese supplier

production facilities have begun to act on their growing awareness of labor rights violations, expressing their discontent both through unwillingness to accept the position entirely (resulting in labor shortages) and through protests. Chinese consumers, on the other hand, are aware of the significant social and environmental issues that the suppliers of multinational corporations have created, yet still value the products' low prices and tangible benefits more. Consumer awareness does not translate into actions that oppose these practices. As noted in the CITI Index of 2015, "Xiaomi and some other brands whole supply chain environmental performance lags behind can still depend on their low prices and publicity for outstanding market performance, to the point that many loyal fans even defend their poor environmental performance" (3).

Emerging opportunities for change:

➤ *Maintaining corporate image as the driver for CSR*

Protecting against reputation losses and maintaining corporate image are critical drivers for corporate social responsibility measures along the supply chain (Walker 69), just as they are the main incentives for the Chinese Communist Party's legislative and rhetoric-based CSR initiatives. A company's reputation has, in fact, been found to influence Chinese consumption. According to a US Chamber of Commerce study published in 2012, 80% of consumers said that they had made a purchase from a brand because of its social reputation in the past year. This may seem contradictory to the information in the section above stating that consumers do not openly oppose the harmful practices in production facilities in China. The conclusions drawn from these different information sources would indicate that while Chinese consumers have not yet taken on activist roles to boycott certain brands based on their

social or environmental responsibility violations, knowledge of the social reputation of brands that offer the same products still influences their purchasing behavior. A bad corporate image has very tangible consequences in the Chinese market, especially given the sheer number of food and product safety scandals in recent years. Hopefully, this will drive businesses to approach the social and environmental responsibility of their supply chain operations with greater urgency in the coming years.

➤ *Strengthening information disclosure*

Western companies face high (and still increasing) demands by their own consumers and environmental/social groups to disclose more information about supply chain social and environmental responsibility, and also pressure them to have specialized third party groups audit their performance in these areas. In this way, multinational corporations operating in the Chinese market can have a positive impact on the business environment there, as competitors will be forced to disclose the same information. In time, industry-wide standards will develop, just as they have for the textile and apparel industry in China. The Responsible Supply Chain Association is an organization dedicated solely to the social and environmental responsibility of China's textile and apparel industry, and its aim is "utilizing resources and strengths of multi-stakeholders to promote CSR related ideas and concepts and assisting businesses in raising CSR awareness and improving management practice."

➤ *Moving beyond audits/compliance to corporate-supplier collaboration*

As noted above, corporate social responsibility in the supply chain is often reduced to issuing standards, conducting audits, and then regular reporting. This necessarily creates an adversarial relationship between the focal firm and its suppliers;

moreover, using this kind of “check-the-box” approach gives both corporations and suppliers every incentive to make all look good on paper without making substantive changes in their operations. This phenomenon is illustrated in the two contrasting case studies that follow. While IKEA has taken a hands-off approach to surveillance of its suppliers due to cost factors, Matrix APA has established a collaborative and engaged relationship to assist in addressing its suppliers’ workplace issues. Ultimately, this approach has resulted in safer conditions on the factory floor, productivity improvements, improved product quality, and additional business for Matrix APA.

IKEA case study:

The IKEA Concept, which is essentially the company's mission and purpose, claims to combine "function, quality, design and value- always with sustainability in mind." One of its several approaches to achieving greater sustainability is to work towards "sourcing all wood from more sustainable sources by 2020." In reading sources that are published or co-published by IKEA, this appears to be a believable aim. Beginning in 2002, IKEA established a partnership with the World Wildlife Fund (WWF) for a three-year project to "promote forest certification, legal compliance in forestry and forest products trade, and increase the amount of forest under responsible management" in China. IKEA has since continued this partnership with WWF for the same mission, but does not provide extensive detail on its achievements with the project other than its work to certify approximately 2 million hectares of forest in China under the Forest Stewardship Council.

The information that does emerge upon researching IKEA's China presence points to an exposé in *The Washington Post* from 2007. The report states that China is IKEA's largest supplier of solid wood furniture, but almost all of the timber used is obtained illegally from Burma, Russia, Indonesia and Papua New Guinea. IKEA employees directly told *The Washington Post* that the low prices of IKEA furniture limit the company's financial ability to retain full surveillance over its supply chain, and as a result they are often forced to rely on false reports from different logging companies and factories. China's State Forestry Administration, meanwhile, seemed unconcerned that the illegal logging was happening outside of China and being smuggled into the country. The administration's attitude towards this issue is more than likely related to the fact that China exported \$8.8 billion worth of wood furniture in 2005, 40% of which was imported by the U.S. (*Washington Post*).

IKEA's sustainability claims fully contradict the reality of their harmful production practices, which enable the destruction of ecosystems and communities. More broadly, the exposé of IKEA's corporate-supplier divide demonstrates the danger of corporate entities relying on the supplier to "report" its compliance.

Matrix APA

Promoting Socially Responsible Business through Supply Chain Relationships

Matrix APA specializes in creative product design and sourcing to meet the needs of high-end retailers and brands around the world. The company works with over 150 suppliers in China to manufacture innovative products for companies such as Oxfam, John Lewis and Inditex. As part of its strategy, Matrix APA emphasizes that its products are produced in a responsible fashion. The company states on its website, “We believe that making good quality products need not come at the expense of others. Matrix APA recognises [sic] the importance of the communities from which we source and we have a strong commitment to improving the lives of workers within our supply chain.”

In an effort to live by this claim, Matrix APA is a member of the Ethical Trading Initiative (ETI), an alliance of companies, trade unions, and NGOs committed to improving working conditions in global supply chains. ETI’s Base Code embraces ethical and social practices based on international labor standards. Members of ETI commit to ensuring that their suppliers adhere to this code of practice. Typically, such codes of conduct involve the use of audits and a “check-the-box approach” to verify whether suppliers are in compliance. However, some companies are beginning to recognize that audits give only a snapshot of what is really happening on the factory floor and often result in the creation of various sets of books rather than real substantive change.

In contrast to the check-the-box audit approach, Matrix APA works with its suppliers to help them recognize the business case for creating a safer and better workplace for employees and for addressing environmental issues. The firm establishes a long-term collaborative relationship with its suppliers to help them understand the root causes of the audit findings and then develop an action plan to address and resolve issues. This strategy involves a much greater on-the-ground presence and commitment to the supplier relationship, but it also seems to generate meaningful and positive change in the workplace and in productivity. Specific types of changes among Matrix APA suppliers include:

- The adoption of mandatory fire safety checks in factories.
- An increase in the number of worker rest days from 2 to 4 per month.
- An increase in workers’ wages to meet living wage standards.
- The adoption of rigorous procedures to verify workers’ age to avert the use of child labor.
- The establishment of health and safety training programs and procedures.

Ensuring the development of socially responsible suppliers makes sense for both ethical and business reasons. Suppliers to Matrix APA have increased their productivity and efficiency due to streamlined manufacturing operations, improved worker skills, less material waste, and fewer rejected goods. As a result, the firm has been able to increase on-time deliveries by 12% and reduce quality complaints by 80%. Matrix APA has gained recognition as a leader in the sourcing procurement industry, winning the European Supply Chain Excellence Award. On the basis of this growing recognition, Matrix has attracted a number of new clients. When Oxfam, a human rights advocacy group, sought a firm to develop its branded merchandise, Matrix APA won the tender because of its strong program to develop more socially-responsible suppliers.

IV. CRITICAL ENVIRONMENTAL AND SOCIAL PRIORITIES

There is widespread recognition that two most pressing CSR concerns in China are the environment and labor rights and working conditions. In a recent survey of the business community in China, 74% identified the environment as a critical CSR issue, while 40% highlighted the importance of labor rights and working conditions (CRS-Asia, 31). This section of the thesis explores some of the key issues in each of these areas, as well as opportunities for change in the future.

A. The Environment

China's environmental issues, most notably its air pollution, have become widely known as some of the most extreme cases of environmental damage in the world today. Photographs of Beijing, which lies close to the industrial production hub of China in the northeast, show thick smog that masks the view of buildings across the street. These photos alarm viewers from outside China, whose chests tighten just thinking about the critical damage that level of pollution has on the health of Beijing residents. In fact, pollution is one important aspect contributing to China's brain drain of the educated and affluent, who leave for more developed countries in the West in search of sunshine and clean air. This is understandable, as the pollution has been linked with cancers and various other destructive effects on the health of Chinese citizens in recent years.

Pollution has become a source of political tension as well. In 2013, Bloomberg News reported anger over pollution to be the “main cause of social unrest” in China. A Pew Global Survey from 2015 cites 76% of respondents as saying that air pollution is a big problem, and 75% stating that water pollution is a “very or moderately big problem.” A documentary named “Under the Dome” came out in 2015 before being censored by the media, which exposed the severity of pollution in China and reflected the negative sentiments of the respondents in the Pew Global Surveys. Chen Jining, the Minister of Environmental Protection, went so far to say that “Under the Dome” was the Chinese version of Rachel Carson’s *Silent Spring*, likely for their shared missions as exposés and awakening for the general public on environmental destruction.

Emerging Opportunities for Change:

➤ *Government Commitments to Environmental Protection*

Until the year 2015, the Chinese Communist Party was relatively uncooperative with regard to environmental health agreements, as manufacturing and industrial sectors emerged in the form of coal-powered factories and became the engine behind China’s economic growth (and CCP legitimacy). Now, China is facing considerable debt and overcapacity in these sectors, and recognizes that its potential for further growth lies in innovative technological and consumer goods sectors. For the above mentioned economic and political reasons, and the evident environmental circumstances, China has a newfound commitment to clean energy development and initiatives to combat climate change.

In 2015, China signed a number of important diplomatic agreements on clean energy, including the Joint Announcement on Climate Change and Clean Energy with the US, and made a \$3.1 billion investment for low-carbon initiatives in developing countries (Qi Ye and Tong Wu, Brookings web). At the Paris Climate Change Summit, it promised to reduce pollutant emissions by 60% by the year 2020 (COP21). The National Development and Reform Commission has also said that it will increase the cost of residential, commercial, and industrial energy consumption to change the way that the country consumes energy on an individual, company, and industry basis (Xiaofei China). China's political and economic commitments signify that they are beginning to undertake a transformation from being the largest emitter of fossil fuels in the world to building the largest low-carbon economy in the world.

➤ *Government Investments in Clean Energy*

For the private sector, these new government commitments signify that it intends to restructure investments on a large scale, pointedly towards green infrastructure and clean energy sectors. China has pledged to increase wind and solar capacity by 21% in 2016, in order to reduce carbon emissions (Bloomberg News). China accounted for 46 percent of all wind power installed globally in the wind market in 2015, and has already become largest investor in renewable energy overall. According to Cusick, the government's main incentive for developing these renewable energy sectors is not so much to combat climate change than to replace the coal-powered plants whose pollution emissions are becoming increasingly contentious. It has committed to produce 15 percent of electricity with renewable resources by 2020 (Scientific American).

➤ *Established Platform for Inter-Organization Collaboration*

For those companies and individuals that seek to invest in clean energy innovations, a platform called the Breakthrough Energy Coalition was established at the Paris Climate Change Summit in 2015, which is the official initiative made by the private sector for clean energy development. The Breakthrough Energy Coalition's focus is to form partnerships between the government, private sector, and research entities in Mission Innovation countries (those countries that made significant commitments to reduce carbon emissions and develop clean energy at COP21). Spearheaded by top leaders such as Bill Gates, Mark Zuckerberg, Richard Branson, and Jack Ma, the organization will work to steer government investment in research for innovative energy breakthroughs.

China's active participation in Mission Innovation should mean that they are open to these kinds of partnerships with research and private sector entities that have environmental health at the core of their mission. However, the government will likely move with caution; they will not want to make drastic reallocations of investments (like research and private sector entities would hope), as that could further destabilize current economic growth in the short-term.

B. Labor Rights and Working Conditions

The Chinese labor force is characterized by three salient factors: a historically heavy reliance on rural migrants to fill urban industrial needs, an emerging dependence on dispatch labor, and notoriously poor and unsafe working conditions.

Migrant Labor

Rural migrant workers have been the foundation for China's economic growth over the past three decades. Currently, there are an estimated 274 million rural migrant workers, comprising more than one-third of all working people in the country (China Labor Bulletin). Despite important changes in policy and labor law to protect the interests of rural migrants, these workers remain marginalized in low-cost, low-skilled and insecure jobs that most Chinese urban residents would deem unacceptable.

The institutional discrimination faced by rural migrant workers is rooted in China's long-standing household registration system (*hukou*). Under this system, individuals could only live and work on a permanent basis in the location specified by their *hukou*; they could only obtain social benefits such as education, health, and other benefits in their place of registration. With the economic reforms of the 1980's, some *hukou* restrictions were superseded by the urgent need for cheap labor in urban areas. Over time, literally hundreds of millions of young men and women would migrate from China's inland areas to its cities to secure work in factories and construction sites.

Despite this massive relocation, important dimensions of *hukou* would continue to thrive and impact the daily lives of migrant workers and their families. For instance, most migrant workers are still unable to establish long-term permanent residency in cities, preventing them from gaining access to essential services such as education for their children. Typically, migrant workers remain in the cities and return to their rural village once per year for Chinese New Year. However, children have no option but to attend public schools in the village. Families are often separated for years, resulting in a broad range of social and psychological issues for China's youth.

Similarly, in the workplace, factory managers continue to view “temporary” migrant workers very differently from “permanent” urban workers. As noted in a comprehensive study on corporate social responsibility regarding labor, “factory managers tend to view migrants as having fewer rights than permanent employees, a perception that leads to higher vulnerability and to exploitation” (Murdoch and Gould 10). As a consequence, migrant workers tend to be employed in the most difficult, dirty, and dangerous jobs in the urban labor force. They may be paid a piece rate rather than hourly wages. They are less likely to have formal employment contracts (as required by the law) and be included in social insurance programs for pensions, medical care, and workplace injury and diseases. In sum, “the workers who are most at risk for injury or disease at the workplace are those least likely to receive protection.” Specific details on workplace conditions are described in more detail in this section.

Dispatch Labor

Over the past eight years, the status of Chinese migrant workers has become even more vulnerable by the increased use of “dispatch labor” in the workforce. The term “dispatch labor” refers to the practice of hiring employees through employment service agencies. Workers sign an employment contract with the agency and, hence, have no direct contractual relationship with the factory. Chinese labor law restricts the use of dispatch labor to “temporary, auxiliary or substitute job positions.” However, the prevalence of the practice demonstrates that these limitations are widely ignored in practice. A survey conducted by All-China Federation of Trade Unions estimated that 60 million workers – as much as one-fifth of the urban Chinese work force – are

labor dispatch workers (Liu 6). Moreover, the use of dispatch labor is increasing as some factories begin to face labor shortages. When factories are unable to recruit regular workers, they hire temporary labor through dispatch agencies (Lubman).

Ironically, the incentive for creating and using dispatch labor first stemmed from China's 2008 Labor Contract Law to protect worker rights. Among its many provisions, this law required that companies purchase workers' insurance, double compensation for overtime work, and pay severance based on the employee's years of work service. Dispatch labor agencies and widespread use of temporary workers emerged as tools to circumvent these requirements. In 2012, the Labor Contract Law was amended in order to limit the overuse of dispatch workers, stressing that the primary form of engaging workers should be through contracts with the employer versus labor dispatch agencies (Liu 6).

As in so many realms of Chinese business, practice has deviated from the law due in large part to the lack of effective regulatory and enforcement mechanisms and the power of counteracting interests. The resulting issues are two-fold. First, despite the legal requirement to use dispatch labor on temporary basis only, in practice, many factories use dispatch labor as the primary method for engaging employees and keep them for long periods of time (Liu 6). For example, according to Wang Kang, a professor at the Institute of Industrial Relations in Beijing, state-owned giants Sinopec and China Telecom rely on temporary workers for nearly 70% of their workforce; it stands to reason that the powerful State-owned Assets Supervision and Administration Commission lobbies heavily to retain the labor dispatch industry (Roberts).

Secondly, since dispatch workers do not have a direct contractual relationship with the employing factory, they are not treated in the same manner as direct-hire workers. Wang notes, “All these workers are the same. They are temporary employees with a lack of protections and no commitment from their employers” (quoted in Roberts). As a consequence, if they do not obey orders, they are simply told to leave. According to a report by China Labor Watch, dispatch workers “do not receive severance pay, the intensity and duration of their shifts tend to be longer than those of direct-hire workers, they work significantly longer overtime hours, and the factories contribute significantly less to social security (Lubman). Moreover, since contract workers are considered labor agency employees, many companies do not report on their status in CSR reporting and compliance. “This makes them lost people,” concludes Bob Bainbridge, president of Supplier Responsibility Solutions, a company that strives to improve worker conditions for corporate clients (quoted in Roberts).

Working Conditions and Benefits

Over the past two decades, China’s factories have garnered a well-deserved reputation for their abject and unsafe working conditions. Last year’s explosion at a Tianjin hazardous chemicals warehouse which killed 173 people revealed just how neglected worker safety can be in Chinese factories. This thesis does not seek to examine all of the many problems migrant workers face in factories. However, two issues warrant highlighting:

Hours and Wages: One of the most difficult workplace issues to tackle in China is the “institutionalized culture of working time violations,” particularly in

China's low-tech and labor intensive export sectors (Murdoch and Gould 18). For instance, a local government survey in Guangdong found that 85% of migrant workers had to work for 10 to 14 hours every day and nearly half had no rest day. Moreover, workers rarely receive the legal premium for overtime hours. According to Murdoch and Gould, overtime is considered compulsory, and workers face either a fine or dismissal if they do not comply (18). Despite well-established regulations on minimum wages, migrant workers are often compensated less than the legal minimum, particularly when they are paid by the piece. Wages are often further eroded by "disciplinary fines" for a wide range of actions such as quality mistakes, littering, and messy dormitories.

Worker Safety: According to official statistics, there were more than 68,000 work-related deaths in China in 2014. While this is a notable decrease from 2001 when deaths due to industrial accidents soared to 110,000 (80 percent of whom were migrant workers), the number remains extremely high (Murdoch and Gould 19). According to the China Labor Bulletin, "accident and death rates remain high largely because of lax enforcement of work safety regulations by local government officials and the subordination of workplace safety to productivity and profit. Very few migrant workers are fully aware of the potential hazards in their workplace and hardly any have received adequate safety training" (CLB).

Work-related illnesses are another major problem in China. In 2002, nearly 400,000 Chinese workers died of occupational illnesses – more than in the United States and Europe combined. While these numbers may seem staggering, it is estimated that 70% of occupational diseases and accidents go unreported (Murdoch

and Gould 19). Approximately six million workers, most of whom are migrant workers, have pneumoconiosis (a deadly lung disease). However, the vast majority of these workers have been denied compensation provided under the law because they had no formal labor contract with their employer (CLB).

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Despite these deeply entrenched problems, there are several emerging opportunities for promoting better conditions for China's workers.

➤ *Reform of hukou*

While the Chinese government has long recognized the need to reform *hukou*, it took its first serious step toward implementing change in 2014. The government's "people-centered" plan on urbanization wants 60% of China's people to live in cities by 2020 and 45% of them to have full urban *hukou*. This means that approximately 100 million of the 275 million migrant workers would be given full urban privileges. While the government's plan is an important step forward, it also has its limitations. Most importantly, the lifting of *hukou* restrictions focuses primarily on cities with less than 5 million people (but most job creation is in the 16 large cities). Moreover, smaller cities are already overburdened with debt and may be less able or willing to provide the necessary infrastructure and public services for a growing urban population (*The Economist*, 2014).

➤ *Changes in the supply of migrant labor*

According to the China Labor Bulletin, the total number of migrant workers has continued to increase over the past decade. However, the rate of growth has dropped significantly. The migrant worker population increased by 5.5 percent in 2010 versus 1.9 percent in 2014. This reflects the overall reduction in China's working age population due to China's one-child birth control policies instituted in the 1980's. As fewer people enter the workforce, China's migrant worker population will likely reach its peak in the next few years and then decline. Already, employers are beginning to report shortages in labor and difficulty in recruiting new workers. This trend may well force employers to compete for labor, driving up wages and benefits for those workers that have long been viewed as easily replaceable.

➤ *Migrant workers' growing awareness of workplace rights*

Finally, and perhaps most importantly, China's migrant workers are also changing in terms of their awareness and desire for better treatment in the workplace. The first generation of migrants were willing to accept any job in the city in order to earn money. However, the new generation of migrants is more educated than their parents and increasingly aware of the benefits and legal protections they should receive (but often don't). They are also more willing to protest openly against unfair or unacceptable work conditions. This critical development will be further explored in the chapter on civil society.

V. CONTEXTUAL FACTORS FOR SOCIALLY RESPONSIBLE BUSINESS IN CHINA

The development of socially responsible business is influenced by three major contextual factors: government policy and laws; consumer demand; and civil society. The unique circumstances of each country determine the relative importance and strength of each of these factors. This chapter examines the unique manner in which these factors have played out in China to date.

A. Government Policy and Laws

The sustainable and socially conscious business development movement is in a very nascent stage within the context of China's business environment. On the government front, however, recent initiatives by the Chinese Communist Party demonstrate that it wishes to promote greater social responsibility within China's business environment. The US Chamber of Commerce outlines three CCP initiatives that endorse corporate social responsibility: the 2006 Company Law stating that corporations must undertake social responsibilities, the Ministry of Commerce *Circular on Enhancing Environmental Surveillance on Exporting Enterprises* in 2007, and the issuance of the *Guidelines on CSR Fulfillment by Central-Level Enterprises* in 2008 by the State-Owned Assets Supervision and Administration Commission. Duan and Eccles note that until the 2006 amendment of the Company Law, CSR was not explicitly stated in regulations for Chinese companies to contribute to society. Article 5 of the Company Law is the only legally binding document requiring companies to

enact CSR in their business operations, but there are not any specific obligations that corporations need to abide by. According to the Chamber of Commerce, the *Guidelines on CSR Fulfillment* mandate that state-owned enterprises actively implement CSR and “contribute to China’s national development goals, through providing infrastructure, contributing to economic growth, strengthening competitiveness, enabling innovation, improving reputation, and enhancing employee productivity and engagement” (Zadek, Forstater and Yu 30). There have been several occasions of government rhetoric recognizing the importance of CSR as well, including the Third Plenary session of the 18th Central Committee of the Communist Party of China in 2013, where it was said that state-owned enterprises have an obligation to engage in CSR. On the global stage, Waddock notes that “China was by far the most well-represented nation at the 2007 International Leaders Summit of the UN Global Compact because of its apparent interest in improving its CSR and sustainability reputation” (91).

While the Chinese Communist Party rhetoric on the need for socially responsible business is vague, and the legislation is currently non-binding for business actors, these actions by the Party are still important. CCP recognition and approval of business with a social focus is critical for the development of a responsible corporate sector that can generate sustainable economic growth. However, vague rhetoric and passive legislation could very well be solely acting as a Band-Aid to China’s tarnished image in the wake of environmental health and social injustice incidents. They are certainly not the result of the government’s inability to act. It is also possible that the government does not yet see the development of socially responsible business to be a top priority. As such, the impact of their efforts has been limited. While I will

argue that the market can and should be the main driver of socially responsible business in China, it must be supported and enforced by a strong political framework. Two political factors inhibit this development currently: corruption, and lack of effective institutions to enforce policy and law.

➤ *Corruption*

Government corruption and corporate irresponsibility go hand-in-hand in many developing countries, and China is no exception in this regard. A study testing the significance of corporate internal characteristics and external environmental factors contributing to corporate irresponsibility in China shows that there is a significant positive correlation between levels of government corruption and levels of corporate social and environmental irresponsibility (Wu). Lieberthal and Lampton suggest that corruption spread after the death of Mao Zedong with the fragmentation of a centralized political authority. Beginning in the early 1980's, when China opened up to the world, political power was concentrated at the local and regional levels, giving these governments certain flexibility and control over policy implementation. The decentralization of power led local government officials to act in their own interests, often engaging in bureaucratic bargaining and rent seeking. An example of this is the willingness with which local governments would grant regulatory exemption privileges in the competition for foreign investment (Lin 91).

Despite Xi Jinping's large-scale anti-corruption campaign, which has ousted hundreds of thousands of officials over the course of Xi's reign, corruption remains an inescapable element of the Chinese business environment. While corruption was previously very public and could be witnessed in the form of lavish dinner parties or

other kinds of entertainment or gifts, the exchanges that take place now are much less conspicuous (Blank, Burkill, and Hong; Anti-Fraud Network). On Transparency International's Corruption Perceptions Index, China's score in 2015 was 37 on a scale of 0 (highly corrupt) to 100 (very clean). The Transparency International website notes that countries like China fare a bit better than those with the most highly corrupt public sectors, but "corruption among public institutions and employees is still common." There is not a significant divergence in corruption indexes among Asian countries, and China's score is relatively on par with that of India, Mongolia, and Thailand. However, China's corruption index is significantly lower (i.e. much more corrupt) than many of the Western European countries and North America. For comparison purposes here, the United States has a score of 76 out of 100 (meaning that it is relatively clean).

A key mission of Xi's anti-corruption campaign is to reconsolidate power within the Chinese Communist Party and shift the political culture, as the decentralization that led to a competition for power at lower levels has caused the exact inefficiencies and misplaced investments that are at the root of China's current economic troubles. For example, local governments pushing for greater and greater manufacturing production may have had the only aim of helping China to reach its audacious growth rate goals, without concern for a future expiration date or consequences. Now, China faces huge debts and overcapacity in its manufacturing sector that threaten to destabilize the nation's economic dream.

Xi's anti-corruption campaign is often viewed as a tool to oust political rivals, but it can also be seen as a mechanism of damage control to prevent further

irresponsible practices and lay the necessary groundwork for future economic growth. The elimination of corruption is a crucial step towards building an economy with high, sustaining growth rates. While this aim is laudatory and very well necessary, the entrenchment of corruption in China's rapid economic growth is a huge inhibitor in the process of economic reform. During the global financial crisis, Hu Jintao expanded the role of state-owned enterprises to increase production and create jobs. While the big SOEs have become some of, if not the largest employers in China, they are also big bureaucracies where graft is pervasive. Xi is tackling these big SOEs for corruption, but in the process is damaging the economic prospects for people all the way down the chain of command (Overholt, East Asia Forum). Bank of America Merrill Lynch estimated that the anti-corruption campaign cost the economy as much as \$100 billion in 2014 (Sudworth 2014). This may be largely due to the fact that colluding with officials places an additional burden on businesses financially, as those businesses are forced to make inefficient expenditures to pay officials to secure their business and obtain the necessary approval for certain projects.

➤ *Implications of corruption for the development of socially responsible business in China:*

Government corruption appears to have spread voraciously in tandem with the development of a socially irresponsible business environment in China. Officials turned the other way when businesses were enacting unethical practices, such as labor exploitation, violation of safety and environmental regulations, etc., in return for financial rewards. Although both parties may have benefited immensely from these types of partnerships for a period of time, long-term results (innumerable environmental health, worker safety, and product safety disasters) have revealed the unsustainable nature of those practices.

Corruption poses a big challenge for socially responsible businesses operating in the Chinese market, as by nature, they would be unwilling to cooperate with unlawful practices that would pose a danger to their labor force or the environment. In fact, the UN Global Compact, which is the world's largest corporate sustainability initiative and a reference point for corporate and policy actors worldwide, identifies its tenth guiding principle for socially responsible businesses as taking a stance against corruption. It says "businesses should work against corruption in all its forms, including extortion and bribery," not only to evade the financial costs as mentioned above, but also to protect themselves against the potential legal consequences, the risk of tarnishing the company's reputation in the eyes of stakeholders, and damage to the company's internal ethics.

➤ *Lack of effective institutions to enforce policy and law*

The poorly developed (and enforced) legal framework was a key determinant and instrument of government corruption, and as such there was no incentive for companies to act responsibly. In fact, there was actual incentive for them to act irresponsibly, as they were competing with other companies that were cutting costs by engaging in the same irresponsible practices. Furthermore, they may have had no choice but to fulfill the rent-seeking requests of officials in order to secure their own business. This lack of effective institutions to enforce policy and law perpetuates all other irresponsible corporate practices as well. Thus, while the government has made some initiatives to promote greater responsibility in the corporate sector, it has failed to address the most important elements that will ensure lasting change: enforcement mechanisms and methods of implementation. A strong legal framework in the United

States is precisely what has enabled social and environmental responsibility initiatives to be effective and produce long-lasting change. There are clear, stringent repercussions for those actors that violate regulations.

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➤ *Anti-Corruption Collaboration*

The UN Global Compact also puts forth several suggestions for companies navigating an environment of corrupt practices, which include publicly reporting such incidents and creating a collective effort among other business and stakeholders to fight corruption. These suggestions bring to light the silver lining in China's context, as Xi Jinping and the Central Commission for Discipline Inspection (CCDI), headed by Wang Qishan, have already indicated that they are very serious about eliminating corruption among China's political and business elites. While it is possible that businesses could still face challenges with government at the local level, where corruption can easily pass unnoticed, there is also opportunity for socially responsible businesses to build a network in support of the CCDI's initiatives. Working in tandem with the CCDI to enforce anti-corruption laws within and outside the corporate sector could bring a new efficiency to Xi's campaign and would set a higher bar for a more ethical business environment within China's corporate world.

Ultimately, the Chinese Communist Party plays a figurehead role in determining China's future. However, it alone cannot counteract the many economic, social, and environmental issues that have developed as a result of policies that have allowed for (and even promoted) growth at all costs. The private sector, consisting of

multinational and domestic businesses, will play an increasingly vital role in the reorientation of China's path to build a future of sustainable and secure growth.

B. Consumer Demand

As with the concept of “dollar voting” in Western countries, Chinese consumers too have a certain power through their purchasing decisions that they otherwise do not have in the political system. The purchasing decisions of Chinese citizens will hold even more weight as China continues to transition towards a consumption-driven economy. In the context of sustainable business development, the environmental and social consciousness of consumers is critical to promote the development of socially responsible business and avoid further environmental degradation through the formation of unsustainable household consumption patterns.

According to the World Wildlife Fund (WWF), household consumption accounts for 56% of China's ecological footprint. Household consumption refers to “short-lived goods and services directly purchased by households” and includes food, shelter, mobility, goods, and services. While China's per capita footprint has not reached that of some developed countries, such as the US and UK, it needs to avoid following the development patterns of those countries. The WWF states that “avoiding infrastructure-related lock-in to resource intensive lifestyles will not be sufficient to prevent the growing pressures on Chinese and global ecosystems, and parallel efforts to avoid mimicking the unsustainable household consumption patterns found in high-income countries will also be necessary” (42).

Persuading Chinese consumers to adopt more sustainable purchasing and household behaviors will also increase the demand for greener products and services provided by the corporate sector. To retain competitiveness in China's market, businesses will be forced to respond to these demands by developing more sustainable practices, building a brand equity that reflects their responsible nature, and enforcing safer regulatory measures. Chinese companies entering global markets must already recognize the high consumer standards with regard to corporate environmental and social responsibility. Violations that emerge in the media and directly affect consumers will have a significant and negative backlash for the company's reputation. A powerful example of this in the Chinese market was during (and has continued long after) The Sanlu Group's tainting of milk powder in 2008 that sickened around 300,000 babies. Chinese consumers' demand for foreign brands of milk powder skyrocketed, and to this day they still distrust Chinese dairy products.

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What is increasingly seen among socially responsible businesses (and many other businesses for that matter) is a greater emphasis on educational marketing content, particularly through social media channels. As mentioned earlier in this thesis, The Honest Company has an online blog called The Honest Life, through which the company informs consumers about potentially toxic chemicals and chemical regulations while simultaneously marketing their own products and brand lifestyle. Digital marketing/social media channels in China are innovative and cater to increasingly sophisticated Chinese consumers. The lifestyles that these socially responsible businesses advocate will only become more desirable for Chinese consumers. As such, there is an opportunity for socially responsible businesses to

utilize these channels to increase environmental and social consciousness (with regard to production practices) among their consumers, while also making green products and practices more relevant and available in their lives.

Disseminating information for the purpose of education and health is also an opportunity for companies to partner with non-governmental organizations in China. Some NGOs have a fragile existence in China, especially those that promote activism and are thus susceptible to government crackdown. The fragile position of NGOs is often viewed by researchers as an obstacle to the sustainable development in China, as they played a vital role in the social and environmental movements in the United States that led to greater CSR measures and more stringent regulations. However, it is known that the Chinese government maintains a certain flexibility with environmental NGOs. Partnerships between NGOs and companies to enact social responsibility initiatives and raise awareness of environmental issues would be mutually beneficial to both parties, as NGOs would have access to greater resources to further their missions, and businesses would acquire greater knowledge of the specific environmental/social issues in the Chinese environment they can address and improve their reputation.

The research is mixed on the current level of environmental and social consciousness in China, and its impact on green purchasing behaviors. Some authors claim that Chinese consumers only care about the final product they are purchasing and not the process that went into making it. In contrast, the US Chamber of Commerce reports that about 80% of consumers in China say that they make a purchase from a brand because of its social reputation (Zadek, Forstater and Yu 7).

Nevertheless, it cannot be refuted that there is increasing public discourse on environmental and social issues and even open opposition on social media to harmful company practices. Consumers want healthy and safe products and are particularly attune to these qualities following the spate of health and product scandals in China.

C. Civil Society

In the United States and many Western economies, civil society has played the central role in driving the business community to become more environmentally and socially responsible. As such, the movement toward holding businesses more accountable for their actions on society has been largely a bottom-up phenomenon. Citizens express their views, complaints, and demands for change through a multitude of vehicles, including non-governmental organizations, the media, trade unions, demonstrations and activism, and, most recently, the internet and social media.

A key question for this thesis is whether civil society has a role to play in creating a more socially responsible business community in China, a society that is governed and controlled from the top down. This section begins by examining what is meant by civil society and then explores major components of civil society in China vis-à-vis the development of socially responsible business. The aim is to reveal key opportunities and constraints posed by the role of civil society organizations in order to elucidate the potential for change in the future.

1. What is Civil Society?

There is no universally accepted definition of civil society. Some of the common threads among the many definitions are the following:

- Civil society is a social sphere separate from and independent of both the state and market.
- Civil society includes not just the people who participate, but the institutions they participate in (often referred to as "civil society organizations" or "CSOs"). CSOs are non-state, not-for-profit, and voluntary organizations including, but not limited to, non-governmental organizations (NGOs), labor unions, charitable organizations, professional associations, and foundations.
- CSOs are a vehicle for representing the interests, values, and will of their members or others in society.

The components of civil society that are most likely to impact the development of socially responsible businesses are: (i) non-governmental organizations (including professional and business associations); and (ii) trade unions. The evolving role of these organizations in China is examined below, particularly with respect to environmental and labor issues.

2. Non-Governmental Organizations

The community of non-governmental organizations has increased dramatically since the beginning of economic reform. According to the Ministry of Civil Affairs' statistics (China NPO 2007), there were 4,544 registered non-governmental organizations in 1989. By the end of 2006, the number had grown to more than 354,000 (Lau 2). Currently, there are an estimated 500,000 registered NGOs in China (Lubman).

The NGO community reflects the central role of government in Chinese society in several ways. For example, one segment of the community is comprised of

“government-organized NGOs” (referred to as GONGOs). Not only are these organizations often organized and funded by the government, they are often led by retired high-ranking officials from the government. They lack the autonomy from government control that reflects true civil society organizations. However, even those NGOs that are independent from the government are required by law to register with the Ministry of Civil Affairs, a process that is onerous for most NGOs. A key constraint to formal registration is that the NGO must identify a “supervisory unit” to sponsor its activities, which is generally a Party or government entity that works in the same technical area. Government agencies are reluctant to serve as sponsors because they must then be responsible for the NGO’s activities. Yet, without a sponsor, the NGO cannot officially register with the civil affair authorities (Lau).

As a result of these cumbersome registration requirements, many NGOs in China operate in a “grey zone.” Some register with the Bureau of Industry and Commerce as a business since that registration process is easier and faster. However, the vast majority of NGOs choose not to register at all. Indeed, some researchers believe that as many as 90 percent of NGOs operating in China are not registered (Lau 2). Others estimate that the number of unregistered NGOs is closer to 1.5 million, three times the number of officially registered NGOs (Lubman). By definition, the numbers are difficult to quantify; however, there is no doubt that the number of organizations operating in the grey area is significant.

This legal grey zone situation has had its benefits and costs for the development of NGOs. According to Jessica Teets, the author of *Civil Society Under Authoritarianism: The China Model*, the “grey area was dangerous but also liberating.

You could get a lot done” (qtd in *The Economist* 2015). It created space for many new civil society organizations to emerge and permitted international collaboration on social, environmental, and legal issues; the grey area also “allowed for creative tensions between established GONGOS and grassroots NGOs” (Oud). However, operating in a grey zone has also constrained NGOs’ activities. These NGOs have been obligated to maintain a low profile and rely on the goodwill of local officials to stay in operation. Moreover, while many NGOs depend on grants and donations from outside of China, they have been unable to open official bank accounts as non-registered entities.

In the spring of 2015, the government proposed a controversial draft law on “Managing Foreign NGOs” that aims to close the grey area. Officials claim that the law will help NGOs by streamlining the process for attaining legal status. That may be true for select NGOs – specifically, those that the government deems beneficial to maintaining social harmony in China. However, the overall effect of the law is to impose much greater control on the operations of the NGO community and, in particular, those organizations with foreign affiliations. As such, the draft law reflects the government’s ambivalent views toward NGOs. On the one hand, it recognizes that civil society organizations have made very significant contributions in education, the environment, health, philanthropy, and other areas over the past thirty years. Conversely, as noted by Patricia Hinton, “some elements of the Party-State appear concerned that organizations not directly under the Party-State’s control offer an actual or potential challenge to its authority.”

The proposed law on managing foreign NGOs remains under intense scrutiny and debate from both within and outside of China because of its potentially chilling impact on the future of independent civil society in China. Specifically, the law would prevent any Chinese NGO from receiving foreign funding, effectively shutting down the many organizations that rely on the international community for financial and technical support. In addition, the draft law institutes strict rules for foreign NGOs operating in China and gives much more latitude to policy and security forces for controlling their operations. For example, foreign NGOs need to find a sponsor and register with the Ministry of Public Security (rather than the Ministry of Civil Affairs). The most controversial provision is that the law would permit the police to enter the offices and review the files of a foreign NGO at any time in order to ensure that they are not engaging in any activities that might be deemed adverse to national security, public order, or morality (*The Economist*, 2015).

In the same vein of increasing control, the Communist Party Central Committee has also issued a new regulation that requires all domestic NGOs to establish “party groups.” The details of what this might mean are still quite vague; however, according to Central Party school professor Zhang Xixian, party groups are “more focused on directly leading the organization to follow the core values of the Communist Party” (qtd in Lubman).

The overall trends are disturbing. The key question for the purposes of this thesis is understanding the potential impact of these changes on the development of a more socially responsible business community. In the past, NGOs have been treated by the authorities in different manners depending on the nature of their activities. At

one end of the spectrum, overtly political NGOs have long been banned. At the other extreme, NGOs with a purely charitable function have had ample latitude and freedom to operate. NGOs that address issues relating to corporate social responsibility have fallen somewhere in the middle of these two extremes. It is these types of NGOs that face the greatest level of uncertainty in the changing environment for civil society. In order to better understand the likely consequences, it is important to take a deeper look into three types of civil society initiatives: independent CSR initiatives; environmental NGOs; and labor NGOs.

Independent Corporate Social Responsibility Initiatives

In recent years, a number of organizations with the specific purpose of promoting corporate social responsibility (CSR) have emerged in China. The most important non-governmental initiatives include China CSR, SynTao, China CSR Map, and the Chinese Business Council for Sustainable Development (Liu). These organizations seek to deepen the understanding and implementation of corporate social responsibility among both domestic and foreign companies operating in China. As such, they have helped companies recognize that corporate responsibility is not simply a matter of giving back to the community through philanthropy but, rather, involves strategic change at every level of operation. Liu points out that, “state-led CSR initiatives on the one hand give legitimacy for CSR NGOs, but on the other hand delimit the boundary of CSR issues permitted in China” (95). For example, human rights issues cannot be addressed in the context of CSR initiatives.

Environmental NGOs

The community of environmental NGOs in China is young, but has grown dramatically over the past 15 years. As late as the mid-1990’s, China had no

environmental NGOs. Spurred largely by the impacts of the 1998 Yangtze River floods, the number of registered and unregistered environmental NGOs has increased significantly since that time to several thousand (although estimates differ considerably). They share a number of salient characteristics.

First and foremost, most environmental NGOs are highly dependent on foreign sources for both funding and technical expertise. International NGOs have been an important source of funds, as have foreign corporate foundations. For example, in an effort to boost its public image in China, the Caterpillar Foundation partnered with the China Environmental Protection Foundation to work on reforestation in four areas in Northern China (Gao 3).

Secondly, environmental NGOs have more scope for action than other types of NGOs but, in order to survive, they operate within the parameters permitted by the Chinese government. The Chinese government is acutely aware of the socioeconomic and health problems arising from years of environmental degradation and, hence, has been eager to encourage environmental NGOs thus far. However, “unlike environmental movements in Soviet Russia and Southeast Asia, where environmental campaigns have spurred political reforms, Chinese movements have played by government rules and are comparatively more interested in environmental awareness than domestic political reforms” (Gao 6). Indeed, Gao argues, one of the key factors underlying the influence of an environmental NGO is its connection to the state administration. Registered environmental NGOs must be sponsored by a government administrative agency to supervise their activities, membership and funding sources,

but this affiliation also gives the organization access to public media to spread its message and promote environmental awareness.

Environmental NGOs face numerous challenges, not the least of which is the precarious balancing act they must wager between the interests of their international funders and their relationships with the Chinese government – both of which are critical to their survival. In addition, they are striving to break ground on making the business community more accountable for its environmental actions, but public interest litigation is still in its infancy in China. Thus far, the community has been unable to win any public interest case involving environmental violations. Finally, environmental NGOs face special challenges in smaller Chinese towns and regions, where local officials often have little incentive to make environmental protection a priority. When industrial plants and factories are key to the survival of the local economy, local officials are reluctant to enforce environmental laws. According to Xu, “local officials often turn a blind eye to pollution out of self-interest. Often, they have a direct financial link or personal relationships with factory owners. Environmental laws and regulations exist, but their implementation is problematic, especially in poor areas” (3).

Despite these obstacles, a few environmental NGOs stand out in terms of their impact on curbing corporate irresponsibility vis-à-vis the environment. According to *The Guardian*, the most influential citizen-led group is the Institute of Public and Environmental Affairs (IPEA), founded in 2006 by Ma Jun. IPEA has created the China Pollution Map, a tool that allows users to search for pollution violations for any company by name. Similarly, it has been instrumental in creating the Green Choice

Alliance, a network of NGOs that lobbies multinational companies to reduce pollution from their Chinese suppliers.

In conclusion, environmental NGOs have flourished to date within the safe space delimited by the Chinese government. Organizations like IPEA illustrate that there is scope for civil society to expose, challenge, and potentially change companies' actions vis-à-vis the environment. That being said, the future of environment NGOs could be in question in light of the proposed law on "Managing Foreign NGOs Law." If enacted (and implemented to the letter), the law's prohibition on foreign funding of domestic NGOs would result in the virtual collapse of the community.

Labor NGOs

In contrast to environmental groups, the Chinese government grants considerably less scope to NGOs working on labor rights, as their concerns tread dangerously close to advocacy for human rights. Nonetheless, according to the *Chinese Labour Bulletin*, there are about 80 civil society organizations that actively seek to address the issues migrant workers face in the workplace. Like their environmental counterparts, they share common characteristics. Most notably, they are located primarily in Pearl River Delta since this is the hub of manufacturing in China. They depend on the support of outside foundations (in particular, from Hong Kong) and are usually led by progressive intellectuals and activists.

Labor NGOs must delicately navigate the scope of what is permissible without running afoul of local authorities. The critical issues are individual versus collective action and education versus advocacy and activism. Labor NGOs can play it "safe"

(as do their environment counterparts) by focusing on individual cases of workplace grievances and limiting their activities to education and support to the migrant labor community. However, the closer they come to promoting and advocating for the “collective” interests of workers, the more they risk potential shut-down and arrest by the authorities. Perhaps because of their activist leadership, labor NGOs have been willing to push the envelope – often at great personal risk and violence. Two cases help to illustrate how these issues play out in China.

Workers Centers: One of the most frequent types of interventions among China’s labor NGOs is the establishment of “workers centers” in migrant worker communities. As a general rule, these workers centers operate in the realm of education and awareness of workers’ rights. These centers educate workers on labor laws and regulations, health and safety in the workplace, and workers’ rights. For example, the Chinese Working Women’s Network (CWWN) has founded the Women Workers’ Service Center to promote the rights and interest of women workers. Its “Women Health Express” visits industrial areas in the Pearl River Delta and gives workers information of occupational health and safety. While these activities are well within the acceptable purview, CWWN has also strived to push the envelope by also creating “worker committees” to promote greater workplace democracy. As noted by Global Labor Strategies, “even though independent trade unions are against the law in China, workers’ committees have been able to take root in some shops through careful attention to what can and can’t be done. The result is a new form of bottom-up organization that could serve as a model for future organization” (34).

Legal services: A number of grassroots organizations have emerged to provide legal services and consultation (somewhat akin to legal aid centers in the U.S.). Again, the “safe” ground for labor NGOs includes educating workers on the labor law and its regulations, providing legal hotlines, drafting legal documents, and representing individual workers in administrative hearings regarding workplace grievances. However, Chan notes that, as workers become more informed of and willing to demand their rights, the number of collective legal cases has increased in recent years (6). NGOs can operate in safe territory as long as they provide legal advice only; however, when advice shifts toward organization of workers and collective action, they enter dangerous territory. In 2006, for example, 12 grassroots groups collected 10,000 signatures on a petition to protest the high fees required to file a complaint before labor boards; such fees prevent workers from exercising their legal entitlement to back pay and injury claims. In response, local authorities raided the offices of the 12 groups, confiscated their computers, and arrested their staff. Local authorities quickly backed down when additional protests ensued; however, this case illustrates the delicate balance that labor NGOs must maintain in order to survive (Global Labor Strategies, 32).

In sum, while labor NGOs do not have the same latitude and freedom to operate as environmental NGOs do, some organizations are willing to push the limits to advocate for workers’ rights. As such, they provide further evidence that there is space (albeit constrained) for civil society organizations to play a role in promoting more responsible corporate behavior. Moreover, as Chan explains, “the potential of labour [*sic*] cannot be underestimated due to their flexibility in a changing political economy, and their high outreach in the workers’ communities” (11). Nonetheless,

their future could be jeopardized by the pending law on “Managing Foreign NGOs,” as they receive extensive financial and technical support from overseas foundations and labor groups. Indeed, it is precisely this kind of collaboration that the Chinese government finds most threatening and aims to squelch through the passage of this law.

3. Trade Unions

Trade unions are a driver for increasing corporate responsibility in the workplace in many countries. This is not the case in China. The All-China Federation of Trade Unions (ACFTU) is China’s sole legally mandated trade union. The ACFTU is a state organ, closely subordinated to the Chinese Communist Party. Legal trade unions must be affiliated to the ACFTU and accept its control; as such, workers do not have the right to organize in trade unions of their own. According to Cynthia Estlund, a leading labor and employment law scholar, the ACFTU “is recognized by many as an appendage of the Communist Party and, at the plant level, submissive to management. Its mission is more to placate the workforce than to respond to workers’ need. (In China, the companies themselves largely fund the union, and their managers often lead the union chapter; both practices would be unlawful in the US)” (www.law.nyu.edu).

4. Citizen Action

Thirty years of economic growth and transformation have fundamentally changed Chinese citizens’ lives and expectations for the future. With increasing access to income, education, and information through the internet and social media, Chinese citizens are growing significantly less willing to accept companies’

irresponsible practices toward its workers and society at large. As this thesis shows, the institutional environment for representing the citizen interests has evolved with the growth of non-governmental organizations; however, the state continues to wage a heavy hand and limits the independence, scope, and vibrancy of these institutions.

Without effective channels for expressing their frustrations and expectations, Chinese citizens are increasingly taking matters into their own hands through strikes and protests. Access to the internet and social media have played an extremely important role in facilitating these group actions and altered the landscape for collective action in China. As illustrated below, this is true for citizen concerns about the environment, as well as conditions in the workplace.

With respect to the environment, Chinese citizens accepted pollution as an inevitable consequence of welcomed economic growth for years. Over time, passive acceptance has eroded, and Chinese citizens are now demanding more accountability from both government and the business community. According to Hoffman and Sullivan (2015), environmental protests have continued to grow in size and gain strength in recent years. They note, “within the last couple of months thousands of people in different parts of the country have vocally, and in some cases violently, railed against polluting chemical plants, waste incinerator projects and coal-fired power plant expansions.” These incidents gain widespread attention through Weibo, the Chinese equivalent of Twitter.

The most vehement protest has centered on factories producing paraxylene (PX) that is used to produce plastics and polyester. And not without justification.

Despite Chinese government assurances about the safety of such factories, a recent explosion at a PX factory in Zhangzhou in Fujian province forced 30,000 people to evacuate and necessitated bringing in the Chinese army's anti-chemical warfare unit. Hence, underlying these protests, is a growing level of mistrust and skepticism of authority in the public and private spheres. While most of the protests have remained localized, this is an issue that is bringing together people from both the Chinese middle class and working class. It warrants close attention.

Similarly, on the labor front, China has witnessed a surge in protests and strikes. The China Labor Bulletin reports that there were 2,700 strikes and protests in 2015 (more than double the number in 2014). In January alone, there were more 500 protests. Part of what is prompting this surge is, with the slowdown in China's economy, businesses are beginning to withhold salaries and benefits, lay off employees, and even shut down operations. Long-standing concerns about unsafe working conditions have also prompted protest. According to the AFL-CIO, "collective action by Chinese workers, including strikes, has been successful in many cases and is bringing Chinese employers to the bargaining table. As a result, China's industrial workers are fashioning their own system of industrial relations, largely without the assistance of the existing law and labor relations institutions."

In conclusion, civil society is changing in China. The NGO community is growing in terms of the numbers of institutions and their importance. However, in order to survive, NGOs must necessarily work within the scope and terms set by the government. As so aptly summarized by *The Economist*, the party will "use the language of civil society to persuade the world that such a concept exists in China.

Yet anyone pushing genuine civil liberties will not be tolerated. Gradual reform is possible, but control remains everything” (8/22/2015).

VI. MAJOR FINDINGS AND CONCLUSIONS

The development of socially responsible business is still at a very nascent stage in China. Nonetheless, there have been significant developments over the past decade to suggest that there is potential for change in the future. It will not be a short process. As this thesis clearly illustrates, the development of socially responsible business involves the complex interaction among many key players in society, including the government, the business community, civil society, international buyers, and local consumers. This has been the case in the United States, as it will be in China. Nonetheless, the role of these key stakeholders has been and will continue to be completely different in these two countries. These are major findings about the role of each of these players in China and the implications for building a socially responsible business community in the future.

➤ ***Government has been the single-most important driver of corporate social responsibility in China.***

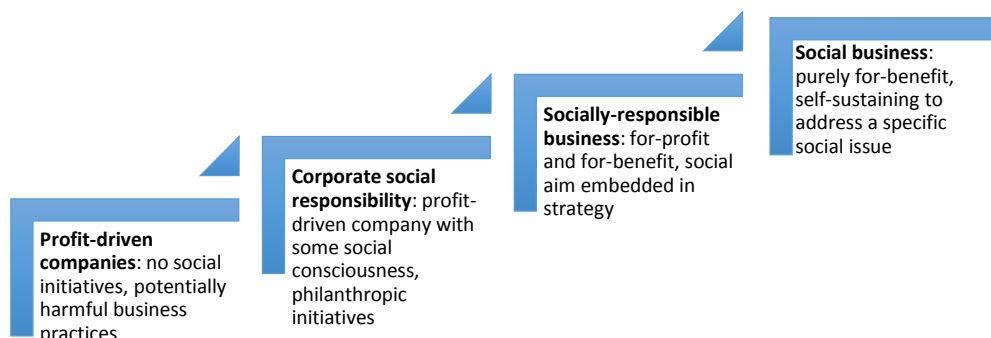
The Chinese government recognizes that the country can ill-afford to continue on the path of unfettered economic growth; indeed, the sustained lack of attention to environmental and social issues over the past thirty years is beginning to have ramifications for economic growth and social stability – and that clearly worries the government. In recent years, the government has issued numerous policies and laws to address corporate social responsibility, environmental protection, consumer protection, and labor conditions. However, the devil lies in the implementation of

these policies and laws. Many of the government’s mandatory CSR initiatives remain largely unenforced. Rules are ambiguous and applied in unpredictable manners. Fines for violating CSR laws are low and provide little incentive for businesses to change their behavior. Finally, corruption undermines the many strong legislative actions the government has taken. In sum, a top-down approach to corporate social responsibility can have little impact without the necessary institutions for implementing and enforcing the law. Businesses respond to economic incentives, and this approach provides none.

In order to have meaningful impact in the future, the government will need to commit itself to developing increasingly stringent legislation and regulations on environmental protection and labor and, most importantly, develop the institutional mechanisms for implementing and enforcing the law in a fair and transparent manner.

➤ *The business community has yet to fully understand, much less embrace the value of social responsibility.*

Turning back to the model presented in the beginning of this thesis, most Chinese businesses still sit somewhere between the lowest and second rung of the ladder. They may have some awareness of the need for social responsibility and understand that it involves more than just philanthropy; however, they are far from embedding these concepts in their business strategy and operations.



In part, this level of understanding reflects the top-down approach of the central government with its emphasis on “sustainability reporting.” Ironically, China can now claim that 75% of its largest 100 companies publish CSR reports, a percentage that tops the global average of 71% (CSR-Asia, 28). However, the quality of this reporting is reportedly weak. In a review of the CSR reports of listed companies in China, Syntao (a Beijing-based CSR consulting firm) found that the average disclosure rate of the major quantitative indicators was only 15.9%. Moreover, more than 90% of the CSR reports issued in China in 2013 were not audited by a third party (CSR-Asia 27).

According to a major survey of Chinese firms conducted by CSR-Asia, “many companies only publish CSR reports to meet requirements of the government or stock exchanges or as a communication tool” (28). As such, Chinese firms are still far from understanding the concept of integrating social responsibility into core business practices. This is an area that government (in any country, much less China) is ill-equipped to address. However, the growing group of business and non-governmental organizations focused on CSR initiatives can and should play a critical role. In addition, firms like Patagonia and The Honest Company can make a significant contribution by demonstrating and sharing their experiences as socially-responsible businesses. For better or worse, the Chinese business community is known for being an avid copy-cat of commercial success. Hence, if they can see examples of how firms have embraced social responsibility as part of their business strategy – and made money doing so – this could lead the business community to adopt a better understanding of what corporate social responsibility really is.

- ***While still relatively weak, civil society institutions have grown in number and influence over the past decade; however, their future is uncertain under the current regime.***

In the U.S. and Europe, civil society has been one of the major drivers of corporate social responsibility. While this is not the case in China, many observers are far too dismissive of the role of civil society institutions in China. As this thesis shows, NGOs that focus on environmental and labor issues are growing in numbers, and they are beginning to exert influence on the business community and public at large. The most powerful example of this emerging trend is the creation of the China Pollution Map by Ma's Institute of Public and Environmental Affairs, which allows citizens to readily see what companies are polluting their cities and communities. Moreover, citizens are demonstrating that they are no longer passively accepting the status quo; and when there are no viable channels to express their concerns and grievances, they are increasingly taking to the streets. Domestic NGOs face an uncertain future with the proposed Managing Foreign NGO Law (particularly in light of their financial dependence on overseas sources of funding). However, if the past is any indication of the future, the law will not necessarily be implemented to the letter. This could bode well for environmental NGOs, but spell difficult times for labor NGOs that tread dangerously close to human rights issues.

- ***International buyers in the global supply chain have the potential to be game-changers in creating more socially-responsible businesses, but their relationship with Chinese suppliers must change.***

For far too long, international buyers have relied on compliance checks and sustainability reporting as the primary tools for “ensuring” that their Chinese suppliers are meeting international codes of conduct. While these tools are important, they have proven to be insufficient. Audits and sustainability reports provide a limited

snapshot of what is really happening on the factory floor and often result in the creation of various sets of books rather than real substantive change. In order to ensure their own reputation as trusted businesses, global buyers must shift toward a new way of working their suppliers, one that is based on a much more collaborative and engaged approach to addressing corporate social responsibility. Only with this strategy will Chinese businesses move beyond the “check-list” approach to CSR and begin to embrace social responsibility as part of their business strategy and operations.

- ***Chinese consumers are changing in their demands and expectations. As such, they may be the most important key to driving change in the business community in the future.***

Ultimately, the most powerful tool for changing corporate behavior lies with the consumer. Historically, the Chinese consumer has not been particularly sensitive to the reputation of a company when making purchasing decisions. However, this too is changing. With rising incomes, higher levels of education, and access to unprecedented amounts of information through the internet and social media, the Chinese consumer is becoming more knowledgeable and demanding of the products they purchase. Moreover, their expectations of companies are increasing in nearly all facets of life. For example, consumers boycotted companies such as Vanke, McDonalds and P&G for not donating enough after the devastating earthquakes in 2008. They are increasingly demanding that companies address their concerns about dangerous pollutants and elevate the health and safety of their products. When consumers channel these expectations into purchasing decisions, they will then become the driving force behind making the Chinese business community more socially responsible.

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