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Successes and Failures of Corporate Social Responsibility Mechanisms in Chinese Extractive Industries

May TAN-MULLINS

Abstract: China's insatiable appetite for natural resources and energy to fuel its national growth is having an increasing impact on the domestic and global environment. Globally, China has turned to resource-rich regions in Africa and South America, at times engaging so-called "rogue states" to secure the resources it requires. Now is a critical juncture at which to encourage socially responsible behaviours in the Chinese extractive sectors, such as adopting the Extractive Industries Transparency Initiative (EITI). This analysis discusses the current corporate social responsibility (CSR) mechanisms in extractive industries and assesses the feasibility of socialising China towards adopting CSR global norms in the extractive industries. This article has three sections. The first discusses China's environmental governance trajectory and ecological footprint in the domestic and global extractive industry. The second section discusses the factors contributing to the success and failure of various CSR mechanisms, with a specific focus on the EITI, and the final section expounds on the emerging challenges and issues and concludes with policy recommendations.

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Keywords: China, corporate social responsibility, extractive industries, EITI

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China's Ecological Footprint in the Extractive Industry

China's need for natural resources to fuel its domestic growth and satisfy its energy needs has left an unparalleled footprint on the world's environment that is continuing to grow (Liu and Diamond 2005; Mol 2011). Domestically, the extractive sectors (such as mining, forestry and fisheries) played a huge role in enabling the country's development, in terms of both industrial growth and providing employment. For example, China consumed 3.8 billion tonnes of coal in 2011, which accounted for 47 per cent of global consumption (*The Guardian* 2013). Inner Mongolia was the nation's largest coal-producing region, reaching 782 million tonnes in 2010 and accounting for 24 per cent of China's total output (*Xinhua* 2011). In terms of employment, an estimated five million people were working in China's extractive industry in 2007 (*Time* 2007), and China's output exceeded 3.51 billion tonnes in 2011 (IBISworld 2011). Due to such rapid growth, China has become one of the world's largest importers of raw materials (Zhang, Lu, and Osamu 2007).

However, increasing Chinese energy demands in the future will render the domestic supplies inadequate, resulting in China chasing other resource-rich countries with increasing prominence in global extractive industries. For example, it is estimated that the shortage of coal in China will reach one billion metric tonnes per year by 2020, with significant implications for domestic manufacturing businesses (Dickinson 2010). Similarly, although China is endowed with 100 tcf of natural gas, prediction that China will quadruple its gas consumption from 2010 to 2035 (EIA 2010) indicates China will need to acquire new gas supplies beyond China.

Through its high-profile resource diplomacy, China has been very successful at securing access to overseas oil, gas and mining reserves. Although Chinese investments in these natural resource sectors have helped to increase global supplies, critics have accused China of fuelling conflicts and human-rights violations in Africa by selling arms to repressive regimes in exchange for oil and minerals (*Asia Times* 2006). Other criticisms of Chinese practices on the African continent include concessions being awarded without transparency, a lack of competitive bidding and the questionable conduct of Environmental Impact Assessments (EIA). Hence, China is seen to

be perpetuating a new era of "resource curse" outcomes in its willingness to deal with rogue regimes and repressive states.

In spite of this rhetoric, greater global engagement in the past few years has drawn increased regulatory attention to the environment (Jahiel 2006). This is because the rise of China's economic influence, both domestically and internationally, has been accompanied by tremendous environmental and social costs. Along with greater unethical and unsupervised practices among enterprises are social violations and environmental degradation. The scarcity of water and its low quality, industrial pollution, poor labour conditions, product safety concerns, corruption and income inequality are issues that the Chinese government must tackle (Zadek, Yu, and Forstater 2012). In terms of environmental contamination alone, the World Bank (2007) estimates the cost of water and air pollution in China amounted to 54 billion USD per year (Chan and Welford 2004), which represents anywhere from 3.5 to 8 per cent of China's GDP. The Beijing central government has recognised the need to address these issues and, since 2003, China's domestic record of dealing with environmental problems, participating in global environmental governance and accepting international norms has improved tremendously. To this end, Premier Li Keqiang recently "declared war" on pollution (*The Economic Times* 2014).

The change that is occurring has been partly attributed to increasing pressure from non-state actors, both domestically and internationally. There have been positive results from global efforts to "socialise" China into good governance norms, which are spearheaded by various non-state actors, including multilateral organisations such as the International Monetary Fund (IMF) and the World Bank Group, and civil society actors such as the World Wildlife Fund (WWF), Amnesty International, the International Rivers Network and trade union alliances. Increasing media attention that has raised public awareness of topics such as environmental pollution and labour conditions has also encouraged an ongoing debate within China about its development trajectory and degrading environment and the impacts of these practices on the Chinese people. Issues such as poisoned rivers and soil, threats to biodiversity and human health, and mega-projects such as the Three Gorges Dam, which are environmentally destructive, have further entrenched the perception that China has forsaken its environment for economic growth (WWF

2008). Scholars have attributed this forsaking of the environment to the inherent nature of market liberalisation and the dilemmas of perceived trade-offs between economic growth and environmental protection (Sanders 1999), combined with a lack of public participation (Buesgen 2008; Sun and Zhao 2008).

In particular, Chinese environmental and social records in the extractive industries, both domestically and internationally, are generally lacklustre. Most of the Chinese companies investing in extractive industries are state-owned enterprises (SOEs). These companies, which have considerable capital for large-scale operations, directly affect the environment through their operations. Existing evidence suggests that corporations have significant potential for both positive and negative sustainable development impacts as a result of their business decisions and behaviours (Zuo 2012; International River Networks 2012). Consequently, the corporate social responsibility strategies of multinational companies – that is, the integration of social and environmental concerns into their business operations and their interaction with their stakeholders on a voluntary basis (Dahlsrud 2006) – have significant policy implications for the environmental, social and livelihood security of the surrounding dependent communities.

The Chinese government understands the importance of mitigating the negative consequences of Chinese economic activities. As such, it has increasingly looked to businesses for help in addressing various challenges (Zadek, Yu, and Forstater 2012). This is partly because the negative externalities of business activities such as pollution, poor labour conditions and unsafe products can best be resolved by the source of the problem: the firm. The role of the private sector in China has also evolved from one taking on the urgent responsibility of securing profits for its shareholders to one of engaging with wider social issues, such as the use of natural resources and impacts on the environment, poverty and health (Moon and Shen 2010). In 2003, CSR was given a legitimate boost with the proposed "Scientific Development Concept" (people-oriented, comprehensive, coordinated and sustainable development which aims to protect the environmental and livelihood security of China's citizenry), by means of which President Hu Jintao and the Chinese government demonstrated a clear interest in proactively promoting CSR (Zhou 2006). Despite this, progress in the extractive industries has been slow. This is

because enacted laws and regulations have become the main driver for CSR uptake in China without any real commitments or implementation from the business side. While some companies are increasingly engaging with CSR and the government is showing signs of offering more detailed guidance on the CSR standards that companies should adopt, initial evidence suggests that the standards are not as rigorous as they should be. Specifically, companies are struggling to formulate, implement and enforce the standards, which is likely to result in negative environmental and social outcomes (Mol 2011: 791).

In the extractive industries, the key global initiatives addressing natural resource industries include the Equator Principles, the Forest Stewardship Council, the Global Reporting Initiative, the EITI, the International Council for Mining and Minerals (ICMM), the Kimberley Process and the UN Global Compact (see Appendix for a short description of the global initiatives). One example of successful adoption of global CSR standards in China is the China Industrial Bank's espousal of the Equator Principles as a guideline for project approval (Forstater et al. 2010). Another interesting example is the Forest Stewardship Council Standard (WWF 2011). However, most of these success stories have focused on specific sectors, without a holistic approach towards to the entire industry. Additionally, the policies also took on a very different form when they were implemented in an overseas context, due to various difficulties such as language barriers and a lack of local knowledge and culture. As such, the outcomes of CSR policy implementation have been disappointing in most instances (see Tan-Mullins and Mohan 2012 for more details). For instance, according to Zadek et al. (2009), CSR policies tend to be determined mainly from headquarters in China and there are no specialised departments or units in Africa or Asia that manage CSR issues. Therefore, many companies in Africa depend on a particular manager's experience to deal with CSR issues, which can lead to ad hoc and inconsistent responses.

Consequently, we are at a critical juncture in terms of engaging China to adopt more effective CSR practices, and greater transparency and accountability in managing its investment in the extractive sectors, due to its increasing ecological footprint in the domestic and overseas environment. This could be achieved by actively promoting

comprehensive mechanisms such as the EITI. The present study,[1] through 22 in-depth interviews with academics, government-linked think tank researchers, policy makers, CSR practitioners and consultants, and representatives of local NGOs and embassies, maps out the recent changes in the extractive sector. In addition, a round table with four selected representatives from each stakeholder group (academic, government-linked think tank, CSR consultancy and NGO) was held to discuss emerging issues and challenges, explore a detailed roadmap of engagement with various stakeholders in the extractive industries and examine the feasibility of an EITI framework in China. The main question I seek to answer in this paper is: Why do some CSR initiatives in the Chinese context succeed while others fail? In the course of fieldwork, I encountered some serious difficulties securing interviews due to the sensitivity surrounding terms such as "transparency" and "accountability", which implied that corruption and bribery issues would be raised. It was only after the issues were framed under the CSR framework and anonymity was guaranteed that these interviews were granted. This demonstrated the Chinese stakeholders' willingness to discuss concepts of CSR more than those of transparency and accountability, which suggested the EITI emphasis on transparency and accountability was one of the main obstacles for adoption by Chinese stakeholders. The following two sections summarise the various CSR mechanisms in the extractive industries and investigate the main research question, with a particular focus on the EITI. I argue that, in addition to the adaptability of CSR mechanisms to the local context, the unequal power relations between the different stakeholders also determine the success or failure of initiatives.

Chinese Extractive Industry, CSR Mechanisms and Outcomes

China is the second-largest consumer of oil in the world, after the United States, and its energy demands are rising fast due to rapid industrialisation and urbanisation. Chinese oil consumption has grown five-fold since 1980, from two million barrels per day (MMb/d)

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to ten MMb/d in 2010. It is predicted that China will double its oil consumption in the next 25 years and increase its gas consumption five-fold. In 2010, 60 per cent of China's oil was imported, the majority from the Middle East, with Saudi Arabia accounting for 4.4 billion tonnes in 2010 (EIA 2010). China's increasing dependence on imports has prompted the country to intensify its domestic exploration and overseas acquisition simultaneously. As part of this intensification, China is carrying out a series of new hydrocarbon explorations in Xinjiang and the South China Sea. Exploration of unconventional gas and shale gas is also under way.

China is also the world's largest producer and consumer of coal, supplying 71 per cent of the country's total energy consumption, equivalent to 85 quadrillion British thermal units. There are 27 provinces in China that produce coal, most notably the provinces of Shanxi and Inner Mongolia in northern China. To illustrate the magnitude of coal production in China, there are approximately 25,000 mines, serviced by over seven million miners. Due to increased demand, coal consumption has been on the rise and in 2009 China experienced a coal shortage of 3.5 billion tonnes (EIA 2010). It is estimated that China's coal shortage will reach one billion tonnes per year by 2020, which will have serious impacts on domestic manufacturing businesses (Dickinson 2010). China's coal industry has traditionally been fragmented among large state-owned coal mines, local state-owned mines, and thousands of town and village coal mines. China's top three state-owned coal companies, Shenhua Coal, China Coal Energy and Zijin Mining, produce less than 15 per cent of the country's domestic coal, with Shenhua Coal, the world's largest coal company, holding 9 per cent (EIA 2010).

The major concerns about the coal industry in China pertain to health and pollution. For example, China generates roughly 40 per cent of the world's coal output, but produces almost 80 per cent of the industry's fatalities due to poor safety standards and illegal mining. Many miners do not have health insurance and suffer from lung diseases such as pneumoconiosis. Although the government mandates that companies should cover employees' health insurance, many miners, especially those in Sichuan, Guizhou and Yunnan Provinces, do not receive proper medical examinations and treatment (Anonymous 1 2011). As for pollution, the mining industry often uses the same sources of water as the surrounding communities. The sharing

of water resources is especially harmful to infants and children, particularly considering that mining activities tend to generate heavy-metal pollution. Moreover, most coal mines are open-pit mines that create air pollution, which is currently a major issue in China.

Due to the significant initial investments in technology and equipment, large SOEs are usually the main operators of mining projects, which can have major and irrevocable environmental impacts, especially when mines are located in remote, ecologically fragile areas. Furthermore, the very nature of mining is environmentally degrading, and usually generates hazardous waste products such as cyanide and mercury, along with greenhouse gases. More controversial than land degradation are the harmful health outcomes for miners and local communities (Ali and Yelpaala 2005). Negative impacts should be mitigated by post-mining rehabilitation efforts, though there has often been a lack of compliance or political will to enforce them. In addition, Chinese projects have tended to started without environmental impact assessments (EIAs) or suitable relocation of/compensation to surrounding households.

China is a relatively forest-poor country. Most of its original forests were cleared centuries ago, and overharvesting in recent decades has depleted many of the remaining mature tree forests (WWF 2011). A 1998 logging ban in China also fuelled the nation's demand for foreign timber, which has left a massive environmental footprint outside of China's borders and raised legitimate concerns that an increase in illegal logging may occur to meet that demand. China is the largest importer of forest products in the world, with most of its imports coming from Central Africa (Canby et al. 2008). Mozambique is one of the main exporters to China, with more than 90 per cent of its timber destined for China. In 2005, approximately 70 per cent of Equatorial Guinea's timber exports went to China, compared to more than 40 per cent from Gabon. Apart from a loss of local biodiversity and harm to forest-dwelling communities, Africa's disappearing forest could have global environmental implications, such as reduced capacity to absorb carbon dioxide and thereby mitigate the effects of fossil-fuel emissions (Jansson, Burke, and Jiang 2009: 4).

Due to the environmental, social and health implications resulting from business decisions in the extractive industry, there is an urgent need to socialise companies to consider the non-economic implications of their investment behaviours. In addition, transparency

and accountability issues also impact the long-term development of any given affected region and its dependent communities. Businesses must play a key role to support good government in resource-rich countries by championing and complying with regulations that make natural resource taxes and royalties public (Shankleman 2009). This could be best achieved with CSR mechanisms, such as the EITI. It is to this topic that I turn next.

There are numerous CSR global initiatives and organisations in the extractive industries. The most notable are the Equator Principles (for the banking industry), EITI (all extractive industries), Forest Stewardship Council (forestry), International Council for Mining and Minerals (ICMM, all minerals), International Standards Organisation (ISO, such as ISO 26000 on social responsibility), Kimberley Process (diamonds) and UN Global Compact (see Appendix for more details).

China has been active in most CSR mechanisms in the extractive industries such as the Equator Principles, the Forest Stewardship Council, ISO, Kimberley Process and UN Global Compact by adopting standards, developing new standards and/or influencing existing standards (Forstater et al. 2010: 28). A glowing example of successful implementation in China is the adaptation and adoption of the Forest Stewardship Council guidelines in April 2009. Working with the WWF, the China State Forestry Administration and Ministry of Commerce jointly released guidelines for Chinese enterprises regarding pursuing sustainable operations and managing overseas forestry. In the same month, the Ministry of Commerce released a guide to foreign investment in 164 countries and regions, including environmental protection regulations and standards. Examples are the National Guidelines on Sustainable Overseas Silviculture and the National Guidelines on Sustainable Overseas Forestry Development and Utilisation for Chinese Enterprises, which were introduced by the Chinese government in 2007 and 2009 (WWF 2011). Although the latter protocols are not mandatory, they place the responsibility for sustainable timber extraction on the shoulders of private companies.

Another successful example is the ISO guidelines, such as ISO 14001. Starting approximately a decade ago, there has been a noticeable increase in adoption and compliance with CSR principles in China through the awards of ISO 14001. ISO 14001 is a series of international standards for environmental management that aims to help

organisations minimise the negative environmental impacts from their business operations. It is also a set of loosely defined guidelines which allows companies to "pick and choose" the recommendations most relevant to their context. This flexibility has made it a popular CSR mechanism in China. As such, the number of Chinese firms certified with ISO 14001 standards increased from 222 in 1999 to 5,064 in 2003 (OECD 2003). More recently, China also supported the newly implemented ISO 26000 on social responsibility.

However, the progress of uptake by major Chinese firms in the extractive sectors, such as the mining, oil and gas industries, has been slow, despite severe environmental, social and labour issues arising from their investment activities. In the mining industry, for example, none of the Chinese companies – whether private or SOEs – nor the Chinese Mining Congress are members of the International Council on Mining and Metals (ICMM website). In addition, the Chinese governance structure has no single person or agency in charge of monitoring and/or evaluating extractive industries and CSR initiatives within China or overseas (Anonymous 2 2011). Consequently, there is no holistic approach, as there are at least 12 different state agencies governing natural resource extraction (domestic and overseas). Hence, there is a need to think holistically, move beyond sectorial segregation and increase the adoption of CSR across the various sectors of the extractive industry.

The EITI covers all extractive industries and is a key initiative in the area of transparency. The initiative is grounded in a shared belief that prudent use of natural resource wealth has the potential to provide the basis for sustainable economic growth and development (EITI 2013a). The initiative is actively supported by over 70 institutional investors, as well as international organisations such as the World Bank, G8, G20 and the European Union (Kolstad and Wiig 2009), while 32 countries have now produced EITI reports (EITI 2013b). The EITI standard promotes the reporting of all taxes and fees paid to governments by private companies, thereby encouraging governments to declare all forms of revenue. Such transactions are to be published and made accessible to the public, and an audit, preferably conducted by an outside organisation, is also encouraged. A multi-stakeholder consultation process is also required to ensure all stakeholders are engaged (EITI 2013a). At the international level, EITI is a highly desirable CSR initiative that ensures the transparency

and accountability of governments and businesses and improves the equity of distribution of benefits accrued from mining these natural resources to the dependent communities.

Although scholars such as Kolstad and Wiig (2009) have identified the voluntary nature and restrictive public participation as obstacles to the implementation of the EITI initiative, the emphasis on transparent reporting and unequal power relations between the various stakeholders plays a larger role in explaining the lack of acceptance in China. One challenge is that energy and resource security is considered a national security issue (Anonymous 1 2011). As such, resource extraction is a very important component of foreign policy, especially when it involves territorial ownership, as exemplified by the case of the East and the South China Sea conflict. Overseeing the extractive resources industry is the National Development and Reform Commission (NDRC), a department of the China State Council, which is the primary policymaking and regulatory authority among the five ministries in the energy sector. Another key player is the National Energy Administration (NEA), which was launched in July 2008. In 2013, the NEA merged with the State Electricity Regulatory Commission (SERC) to become the key energy regulator in China. In 2010, China formed a National Energy Commission (NEC) to consolidate energy policy among the various agencies under the State Council. Various government agencies, such as the National Development and Reform Commission (NDRC), the Ministry of Finance, the Ministry of Commerce (MOFCOM), the State Administration of Foreign Exchange (SAFE) and the State-Owned Assets Supervision and Administration Commission (SASAC) are all influential in governing the behaviours of overseas investments. Agencies such as the Ministry of Environmental Protection (MEP) and the State Forestry Administration (SFA) are part of the process in terms of mining and logging.

Many SOEs are engaged in the extractive sectors (Dickinson 2010). This entanglement between the state and business enterprises further complicates transparency issues, as it can be difficult to assess accounting between the state and the SOEs. The SOEs are usually supervised by MOFCOM and SASAC. Provincial-level SOEs comprise approximately 88 per cent of all Chinese firms investing abroad, making provincial governments key players in China's corporate engagement strategy overseas (Gill and Reilly 2007). Although numer-

ous small and medium enterprises invest in the domestic and overseas extractive industries, their presence in natural resource management tends to be minor as they usually are small-scale and do not register their investments with the government. This makes it difficult for the government to incorporate or govern their behaviour.

Apart from the key state actors in the mining industry, there is an increased presence of civil society organisations due to their proliferation in recent years. NGOs with an environmental focus are flourishing in China, as they are not engaging in "sensitive" issues. However, state legislation tends to restrict the space for NGOs to flourish so that it can retain its power in the policy formulation and management of natural resources, especially regarding energy issues (which equate to national security issues). Similarly, there are no INGOs in China working on the extractive industries or specifically focusing on transparency and accountability issues. However, the presence of INGOs in China that focus on the environmental impacts of unsustainable extraction and pollution, such as the Blacksmith Institute, is growing.

The role of media in natural resource management is also limited, despite the fact that the State Council of the People's Republic of China announced the Regulations of the People's Republic of China on Open Government Information in April 2007. This directive officially supported the UN General Assembly Transparency Resolution and the Pittsburgh Declaration (WWF 2011). However, no information is available about how policies are prioritised, drafted and approved. As a result, there is little transparency in the policy-making process. Moreover, like all state-owned media, most online news agencies (such as *Xinhua*) and television (CCTV) programming in China are state-controlled and censored. Thus, information is generally disseminated to justify and explain state policies. As a result, only selected knowledge is presented from the government's perspective, which naturally tends to be pro-government. According to one respondent, "media communication to the domestic audiences 'always includes propaganda or special marketing'. The coverage is usually factual without detailed analysis" (Anonymous 3 2011).

Such coverage could be due to censorship guidelines, which are often circulated weekly by the Communist Party Propaganda Department and the Government Bureau of Internet Affairs to prominent editors. For this reason, Reporters without Borders ranked Chi-

na 171st out of 178 countries in its 2010 worldwide index of press freedom (CFR 2013). The lack of freedom to report is particularly true during coal-mining accidents as local government officials do not want their careers tarnished. However, with higher levels of public awareness arising from social and micro media (such as Weibo, the Chinese equivalent of Twitter) and the increasing availability of the Internet in general, the Chinese government is gradually realising the task of monitoring the World Wide Web is impossible, recognising the need to evolve with the changing circumstances and cater to the needs of the public.

Hence, the main reasons why the uptake of EITI in China has been slow are the emphasis on transparency and accountability, and also the lack of an inclusive multi-stakeholder consultation process that translates to some sharing of power between the state and non-state actors. The quality and nature of stakeholder engagement relates centrally to their relative power. Power, in this case, relates to the differential ability to control and/or access the economic benefits from resource exploitation (Peluso 1992). By understanding the main key stakeholders in the industries, we can explain the uneven distribution of access and control of environmental and monetary resources. For instance, businesses' ability to "own" certain natural resources through formal land and mining rights issued by the government often marginalises the dependent surrounding communities who have relied on the same resources for livelihood security for generations.

Also, unlike ISO standards or the UN Global Compact and the Global Reporting Initiative (GRI), which allow companies to determine which elements are most suited for their needs without engaging other stakeholders, EITI demands a more rigorous process. This is particularly true in terms of participation by all stakeholders and greater disclosure in terms of revenue and contract details. However, as illustrated above, it is impossible to meet disclosure terms due to the nature of the extractive industry, which is considered part of foreign policy and mainly governed by the state and the SOEs, creating a highly unequal power structure in this sector. The Chinese government's ability to control key resources, not just natural forms, but also information and technology (in terms of media), also makes an inclusive multi-stakeholder process of the EITI unfeasible and sharing of power impossible.

The way forward may be to increase the sense of ownership among Chinese stakeholders over the formulation of transparency, accountability and EITI standards. This would entail involving the Chinese stakeholders in the drafting of all international initiatives, such as EITI or Global Compact initiatives (Anonymous 3 2011). For the Chinese, the tide is turning. China wants to be more than just a player in the game; it wants to help make the rules. It might be appropriate to commence a new sub-EITI programme that focuses on emerging economies. It will be difficult for China to fully disclose all the information on deals, financial and otherwise. An initial step would be to target either the EITI process of multi-stakeholder engagement or a certification process in which disclosure is confined to a secure authority and kept classified until a later stage. This would encourage a sense of ownership among emerging economies, which would help with adoption, sustainability and enforcement.

Conclusion: An Opportune Juncture for Change?

As described above, despite challenges, the Chinese government is showing progress and aligning its corporate behaviour with global norms. For example, tax reforms were implemented in the energy and mining industries in 2011. On 13 October 2011, a resource tax was announced and crude oil and natural gas were taxed based on their sales value at 5–10 per cent. In addition, coking coal and rare earth elements were also subjected to higher tax rates (*Reuters* 2011). Such reforms could cost China's top-three oil companies a combined 44 billion CNY a year (*Reuters* 2011). The Chinese government says the amendments were mainly made for the purpose of resource conservation and environmental damage reduction, but analysts believe the move will also cause a larger portion of resource companies' profits to flow into local government pockets. How these taxes will be utilised remains unclear due to the lack of reporting and transparency.

These baby steps of positive change indicate it is time for proactive engagement with major Chinese stakeholders in the extractive industries to push forward the multi-stakeholder governance approach. In particular, international organisations such as the Revenue Watch Institute could work with well-established local NGOs such as the Global Environmental Institute, All-China Environment Federa-

tion (government-supported) and Institute of Public and Environmental Affairs to address issues in the extractive sectors. Nevertheless, INGOs will initially face difficulties when working with local stakeholders, especially in advocating international standards, as promotion of such standards might be misconstrued as a promotion of Western standards. The best way to overcome this is to avoid preaching and criticising and to instead manage the collaboration as a two-way exchange. It is through collective ownership that the initiatives will be sustainable for the long run.

As Chinese businesses are the main actors in the extractive industries, there should be increased engagement with them to adopt CSR initiatives locally and abroad. Through highlighting the importance of CSR initiatives, particularly transparency and accountability, information about company revenues and expenditures could be made available on the company website and in the annual report. There is also a need to improve the transparency of bilateral resource access deals, ideally encouraging the publication of contract terms (Anonymous 4 2011). This move will be particularly vital in regions such as Africa or South America, where the Chinese are tying development aid to resource access. Increasing transparency in business transactions will not only promote accountability in China, but also improve governance and accountability in the weaker states.

It is critical to encourage the SOEs' commitment to CSR, as Chinese investment in the global extractive industries is mostly dominated by SOEs. Promotion to increase awareness of CSR initiatives such as EITI could be conducted through platforms like conferences, focusing on best practices from around the world. Framing the importance of good governance through business cases and concepts such as potential risks could rally support from companies, as it would benefit the companies financially in the long term. Examples of negative investment outcomes, such as the coal mines in Zambia, illustrate the results of poor CSR practices. In particular, soliciting help from other stakeholders, and CSR consultants, will help to advocate best practices and transfer knowledge in terms of tailoring the CSR module to individual company needs. The CSR consultants will also fill the gap of lack of knowledge and skills in CSR initiatives in the extractive sectors.

As stated above, another important step would be to tailor the EITI process to the Chinese context, through multi-stakeholder en-

gagement and a certification process in which disclosure is confined to an authority and remains classified until a later stage. This will allow the emerging economies to take charge and eradicate the possible North–South divide or Western hegemony debate on international standards. Allowing emerging economies to take charge will also encourage a sense of ownership, which will help ensure successful adoption and sustainability in terms of implementation and enforcement. Indeed, many Chinese corporate leaders stressed the need for international models to be adapted to the context of Chinese companies (Forstater et al. 2010).

Finally, regardless of the inherent problems of the concept of CSR and other global mechanisms as non-binding agreements, they are highly dependent on the political will of governments and companies, as well as the increasing role of environmentally focused civil society movements to ensure compliance. Although non-state actors have assumed responsibility for "socialising" Chinese businesses into global norms of livelihood and environmental protection, it is ultimately up to the company to implement CSR.

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Appendix

Key Initiatives Addressing Natural Resource Industries

- **Equator Principles** offer a framework for environmental and social risk assessment of project finance, based on the Environmental and Social Standard of the IFC.
- **Extractive Industries Transparency Initiative (EITI)** is a global standard that promotes revenue transparency. It provides a robust yet flexible methodology for monitoring and reconciling company payments and government revenues at national level. The process is overseen by participants from the government, companies and national civil society.
- **Forest Stewardship Council**, set up in 1993, is an international non-governmental organisation dedicated to promoting responsible management of the world's forests. It runs a global forest certification system that allows consumers to identify, purchase and use timber and forest products produced from well-managed forests.
- **Global Reporting Initiative** was set up in 2000 to develop, steward and encourage adoption of generally accepted guidelines for public reporting on sustainability performance.
- **International Council for Mining and Minerals (ICMM)**, Sustainable Development Framework, developed by an industry group, provides a framework of principles for sustainable development, reporting and independent assurance for mining companies.

- **Kimberley Process (KP)**, launched in 2003, certifies diamond supply chains to ensure that legitimate supplies can be distinguished from "blood diamonds" that finance conflict.
- **UN Global Compact (UNGC)** establishes ten broad principles covering environment, human rights, labour and corruption, and provides guidance, tools and learning and collaboration networks to assist companies in meeting and communicating these principles.
- **Voluntary Principles on Security and Human Rights (VPs)**, launched in 2000, set out a standard to ensure that security forces protecting extractive projects do not intimidate or harm local people.

Source: Forstater et al. 2010: 25.

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