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<tr>
<th>Abbreviation</th>
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<tr>
<td>BSCI</td>
<td>Business Social Compliance Initiative</td>
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<tr>
<td>CCCMC</td>
<td>China Chamber of Commerce of Metals, Minerals &amp; Chemicals Importers &amp; Exporters</td>
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<td>CESA</td>
<td>Chinese Electronics Standardization Association</td>
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<td>CHINCA</td>
<td>China International Contractors Association</td>
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<td>CIC-STARS</td>
<td>Chinese Industrial Corporations Sustainability Transition Assessment and Rating System</td>
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<td>CMRS</td>
<td>Contract Management Responsibility System</td>
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<td>CNTAC</td>
<td>China National Textile and Apparel Council</td>
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<tr>
<td>CPC</td>
<td>Communist Party of China</td>
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<td>CPPCC</td>
<td>Chinese People's Political Consultative Conference</td>
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<td>CSO</td>
<td>Civil Society Organisation</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>CSR-GATE</td>
<td>China Sustainability Reporting – Guidelines for Apparel &amp; Textile Enterprises</td>
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<td>GEF</td>
<td>Global Environment Facility</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<td>IBLF</td>
<td>International Business Leaders Forum</td>
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<td>IEC</td>
<td>International Electrotechnical Commission</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPE</td>
<td>Institute of Public and Environmental Affairs</td>
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<td>ISO</td>
<td>International Organization for Standardization</td>
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<td>MBA</td>
<td>Master of Business Administration</td>
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<td>MEP</td>
<td>Ministry of Environmental Protection</td>
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<td>MOF</td>
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<td>NDRC</td>
<td>National Development and Reform Commission</td>
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<td>NGO</td>
<td>Non-governmental Organization</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>PAED</td>
<td>Publicly Available Environmental Data</td>
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<td>ROA</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<td>ROFA</td>
<td>Return on Fixed Assets</td>
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<tr>
<td>SASAC</td>
<td>State-owned Assets Supervision and Administration Commission of the State Council</td>
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<td>SCORE</td>
<td>Sustaining Competitive and Responsible Enterprises</td>
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<td>SDG</td>
<td>Sustainable Development Goal</td>
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<td>SDIC</td>
<td>State Development &amp; Investment Corp., Ltd.</td>
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<td>SEPA</td>
<td>State Environmental Protection Agency</td>
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<td>SME</td>
<td>Small and Medium-sized Enterprises</td>
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<td>SOE</td>
<td>State-owned Enterprise</td>
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<td>STA</td>
<td>State Taxation Administration</td>
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<td>TVE</td>
<td>Township and Village Enterprises</td>
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<td>UN</td>
<td>United Nations</td>
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<td>WTO</td>
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Since China’s Reform and Opening Up process was launched in 1978, the country has made remarkable and widely recognised achievements in economic and human development, affecting everyone at all levels - from the government, to the corporate sector, to the whole of society. As the accompanying report to the special 20th anniversary edition of China’s National Human Development Report, this report focuses on the changing realities of China’s economy and business environment. It describes the evolution of various roles that different stakeholders have played in shaping China’s current business ecosystem and their efforts to promote sustainable development.

The Reform and Opening Up process is first and foremost an economic proposition. Through key policy changes to encourage investment, the Chinese government promoted the transformation of businesses in terms of structure and operations, driving China’s rapid development.

The report follows four main periods in which the last four decades are commonly divided, to describe the evolution of China’s business ecosystem (Chapter II) and the development of concepts such as sustainability and corporate social responsibility (Chapter III). Chapter IV describes the various players involved in China’s sustainable business development, while Chapter V offers recommendations for all stakeholders going forward.
Key elements of China’s business ecosystem

The first period from 1978 to 1991 focused on the first steps taken by the government to move away from the planned economy. Through the reform of “delegation of power and profit sharing” (1978), the government relaxed its control over enterprises, at the time state-owned. This allowed a certain degree of freedom in production and management, enabling producers to better respond to the needs of society, while also retaining some profit. The reform was effective in incentivizing state-owned enterprise (SOE) managers and employees. However, in time, it also caused unchecked growth in production capacity and inefficient use of resources.

Similar steps away from the planned economy were taken in agriculture as well, through the “household responsibility system”. This replaced the highly egalitarian collectivized agricultural management system with a contract-based one that allowed farmers to keep or sell, for their own benefit, a portion of what they grew. The results were outstanding, with great productivity gains already in the first years of implementation. The reform also freed a large labour force that turned to the development of enterprises at the town and village level in the light industrial sector. Collectively-owned township and village enterprises (TVEs) started to flourish. These laid the foundation for the later development of private-owned enterprises.

Finally, it was in these early years that the government experimented with market-oriented economic reforms, opening up certain areas to the outside world, through special economic zones (SEZs). This new business ecosystem developed in coastal cities and quickly
thrived. During this process, the government’s institutional support played the most important role.

The coexistence of the planned economy and market-driven economy gave rise to a “dual-track” system, which distorted market-based pricing mechanisms and hindered further development of the business ecosystem.

During the second period of reforms in the 1990s, the government set a new goal of establishing a socialist market economy, through a series of fiscal, taxation, financial and corporate system reforms to promote its development. In the following years, China made notable progress in adjusting and improving its corporate ownership structure, which saw a shift from the dominance of the state-owned economy to the development of enterprises of various types of ownership, comprehensively restructuring many small and medium-sized SOEs and TVEs.

Despite these significant changes, progress was slow in creating a fair enabling environment for all market players. As such, the 1990s saw the emergence of heated debates about whether SOEs should “advance” in, or “withdraw” from, certain industries; the extent and effectiveness of the government’s intervention in business life; and unethical corporate behaviour. Moreover, during these years of sustained economic growth, the development of the legal system and a market economy corporate culture lagged behind and the unconstrained pursuit of profits inevitably caused social tensions.

These forces and challenges, together with pressure from global competition following China’s accession to the WTO in 2001, were major drivers behind the evolution of the business ecosystem seen in the third period of our analysis, from 2002 to 2012. With Chinese enterprises further accumulating ample resources and gaining greater influence in the public sphere, new concepts, such as sustainable and responsible business behaviour and corporate social responsibility, started to emerge. International standards and best practices were introduced well beyond the special economic zones. A modern business ecosystem was beginning to take shape. At the same time, the rapid growth and spatial expansion of enterprises also generated requirements for stronger regulations and value connections.

These requirements have been central in the fourth period analysed here - the years from 2012 onwards – also defined as the “New Era”.

Firstly, during this period, international trade, overseas investments, and the in-depth integration of China’s economy and the global supply chain provided valuable opportunities for SOEs to develop quickly. A new round of SOE reform was launched at the 3rd Plenary
Session of 18th CPC Central Committee in 2013. It aimed to enhance the role of SOEs in economic and social development “based on current circumstances and the characteristics of China”, while gradually turning SOEs into market entities.

Secondly, the government embarked on an extensive reform of government departments, aimed at optimizing their setup and functions, which promoted the transformation of government functions from an administration-oriented government to a service-oriented one, better adapted to the requirements of a market-led economy.

Thirdly, the Chinese government incorporated the concept of “sustainable development” into its social and economic development strategy and policy, creating the core framework to promote sustainable development at home and abroad. This was a key step towards re-balancing growth with social and environmental sustainability and meeting “the people's growing need for a better life”.

Chapter III, indeed, focuses on the evolution of concepts like “sustainable development” and the roles that the government, corporate sector and civil society have played in it. This section follows the same historical classification of Chapter II.

1) 1978-1991: Rapid economic and human development, the emergence of market awareness, but also new social and environmental challenges

During the first period following 1978, there was significant accumulation of material wealth and improvements in living standards amongst the Chinese population. Rising household incomes led to more advanced consumption patterns and the diversification of lifestyles, while economic growth generated greater job opportunities.

With growth, however, new challenges emerged. Concerns over counterfeit and low-quality products led the government and public to start taking greater interest in consumer protection. Labour concerns over poor safety and working conditions for instance, also arose, with the protection of labour rights lagging far behind economic development in this period. Finally, rapid economic development, coupled with inadequate and lax environmental management, led to a huge amount of resources being wasted. New sources of pollution, such as TVEs, appeared. The government started to take action against pollution and adopted environmental protection as a basic national policy, establishing a legal framework for it.

At the same time, economic and social development provided the space and opportunities for new players to emerge, with the aim of sharing the benefits of China's growth through-
out society. This included government-backed civil society organisations dealing in public interest projects and activities. As part of this shift, in 1979 the United Nations Development Programme opened its representative office in China.

2) 1992-2001: Unleashing entrepreneurs’ potential and the emergence of new social players

The last decade of the 20th century in China saw growing attention around the value of the different stakeholders in the business ecosystem, such as entrepreneurs and workers, whose key role in development was acknowledged and emphasized.

This period also saw the continuation of trends that had emerged previously, such as: consumer rights violations, as some enterprises pursued profits at the expense of ethical and social responsibilities; labour issues becoming increasingly challenging; unsustainable exploitation of natural resources and extensive environmental pollution impacting major population centres and regions; and new types of organizations, such as business associations, foundations and other civil society organisations focusing on economic, but also social development. Last but not least, the understanding of corporate social responsibility increased.

3) 2002-2012: Integration into global value chains and societal rebalancing

With deeper integration into the global economy following China’s WTO membership, the government reached consensus on the critical role of supply chains in promoting social responsibility in China. Labour-intensive industries, such as textiles, garments and electronics, began to comply with relevant management systems and international guidelines, promoting best practices and more sustainable, responsible business behaviour.

During this period, Chinese enterprises’ developed a stronger understanding of corporate social responsibility, encouraging them to give back to the community. This led enterprises to become a new driving force for social, as well as economic development.

However, rapid growth worsened environmental pollution. Public environmental awareness continued to increase, as did collective actions against environmental pollution. In response to these challenges, the government expanded environmental management efforts.

4) 2012-present: New trends in business ecosystems and enhanced efforts in sustainable development
In the most recent period, a new chapter in China’s opening up was formulated through projects like Going Global and the Belt and Road Initiative. While Chinese enterprises accelerated their investments and operations abroad, they also exported certain environmental and social externalities, of which the government has become more aware. This has resulted in concepts like environmental sustainability, such as the “Green Belt and Road”, being incorporated in government policy and strategy. Additionally, guidelines and codes of conduct for overseas investments were developed by different business associations.

Domestically, following policy guidance from the government, more and more enterprises are contributing to targeted poverty alleviation through industrial development, finance, and technology. This has not only promoted economic and social development in poverty-stricken areas, but also opened up new spaces for the development of enterprises themselves.

Finally, although environmental concerns persist, China has made breakthroughs in environmental protection. A noteworthy step in environmental governance at this stage is increased public participation, in addition to strengthened law enforcement.

Over the past 40 years of Reform and Opening Up, Chinese policymakers have continuously transformed the business ecosystem through policy adjustments. This has allowed enterprises to realise their potential, with profound and far-reaching impacts on social development and the environment. Over time, enterprises have had their processes and business models questioned by the government, media, Internet users and consumers, in terms of whether they are purely in their own interests, or the public’s. This is encouraging them to be more responsible and pursue sustainable development, shaping a business ecosystem based on common interests and shared social values.

Looking to the future, pursuing sustainable development across the business ecosystem and society is of great significance not only to China but also globally, in light of the rising international influence of Chinese enterprises and society. As such, this report concludes with a set of recommendations for various actors in the Chinese business ecosystem (Chapter V).

1. Enterprises and investors

To continue to advance a benign business ecosystem and social development, responsible and sustainable business practices must be integrated in the core business strategies of Chinese enterprises. To this end, Chinese companies should:
• Regard their business growth and the well-being of the society in which they operate as mutually reinforcing objectives;

• Be aware that the impact of and responsibility for their business activities also extends to external parties across their supply chains globally, including to their producers and distributors;

• Pay attention to the environmental and social footprint of their overseas investments.

Chinese companies, as part of the global supply chain and as foreign investors, should address business and social relationships under economic, social and environmental lenses. The construction of overseas business ecosystems and their impact on the local labour force, communities and society should be effectively addressed.

Overall, corporations should invest their resources and expertise towards sustainable development and the Sustainable Development Goals (SDGs), which aim to end poverty, reduce inequality and protect the planet. For companies, this can also help to ensure early compliance with future regulations at home and abroad; improve their public image and marketing efforts; attract and retain employees; as well as preserve natural resources for continued use.

2. The government

The government has played a leading role in shaping and regulating the business ecosystem. In future, the government should:

• Improve the policy framework to further empower enterprises to reach their full potential in driving economic growth, while also addressing social and environmental concerns;

• Continue exploring new partnership models with enterprises, such as public-private partnerships and market-based incentives, to encourage innovative solutions to development issues using companies’ expertise and resources;

• Enhance the corporate sector’s engagement in sustainable development by setting priorities and milestones for sustainable development targets, as well as effectively implementing and monitoring corporate sustainability progress.

3. The United Nations (UN) and other international organizations

To strive for a more inclusive and environmentally-friendly business ecosystem, create syn-
ergies between the 2030 Agenda and China’s long-term development goals, as well as accelerate China’s transformation into a greener economy, UN agencies should:

- Step up efforts to motivate and mobilise businesses in China in contributing to the 2030 agenda, while promoting inclusive economic growth;

- Continue to leverage its global network and perspectives to establish cooperation networks and facilitate Chinese enterprises’ engagement with UN agencies and other bilateral and multilateral partners, in designing and delivering initiatives that support the SDGs;

- Strengthen knowledge and skills sharing initiatives for business engagement, including effectively partnering with the corporate sector, measuring its impact on economic and human development, and exploring new sustainable solutions.

4. Industry groups

Industry groups, such as business associations and chambers of commerce, have become an important force in driving the transformation of China’s business ecosystem. To address the complex issues around sustainable development and expand successful initiatives within and across sectors, industry groups are advised to:

- Drive collective action at the industry level, building consensus through dialogue and consultation on sustainable development;

- Develop voluntary or mandatory codes for environmental and social best practices to provide guidance and reference to enterprises and;

- Enhance corporate capacity by organizing capacity-building programmes, promoting best practices, building communication platforms and strengthening information disclosure.

5. Civil society organizations (CSOs), media and academic institutions

Over time, the public has begun to participate in social governance, providing input for the development of business ecosystems. To effectively influence companies’ behaviour and social impact, CSOs, the media and academic institutions could:

- Enhance effective engagement with corporations, to raise awareness around sustainability;
• Participate in ongoing dialogues with businesses, assist in identifying social, environ-
mental and governance risks arising from their activities, collaborate in finding solu-
tions and enhance transparency in the corporate reporting system;

• Additionally, academic institutions, specifically, should internalize sustainable princi-
ples into business management education and develop curricula to provide current
and future business leaders the mindset, skills and knowledge to drive sustainable de-
velopment.
Chapter 1
2018 marks the 40th anniversary of the launch of the Reform and Opening Up policy in China. Over the past four decades, China’s economy and society have undergone ground-breaking changes, with profound impacts on all aspects of Chinese society. The key to this transformation is that China has shifted from a “…traditional planned economy, to an unprecedented socialist market economy, and then to a regime that enables the market to play a decisive role in resource allocation and gives better play to the role of the government, and a shift from a reform focusing on the economic system to a comprehensive one concerning economic, political, cultural, social and conservation culture systems.”

If we delve deeper into China’s reform process, it is not difficult to gain insight into the mechanism that spurred Reform and expanded its influence by examining the interactions among the various economic entities involved. First of all, the Chinese government’s policy reforms have continuously promoted changes in the composition, operation and behaviour of the business community. Policy change is not only the “original impetus” for the whole reform process, but also the ultimate driving force for the ripple effect of a series of reforms. Secondly, in the past 40 years, the changes in the business community

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with regards to its composition, operation and behaviour have also had profound impacts, either positive or negative, on Chinese society in the economic, social and environmental spheres. This impact is not only a spillover effect from economic reforms, but also a driving mechanism behind social changes in itself. Finally, the influence of the changing business community on China’s economy, society and environment, especially its negative impact, has prompted various social entities, including the government, to pay increasing attention to the effect of enterprises on society. This has in turn influenced the decision-making processes and operations of the enterprises themselves, bringing about adjustments to the enterprise-society relationship.

To begin with, economic policy has manifested itself in top-down reforms introduced to the corporate sphere in the form of laws and policies promulgated by Chinese decision-makers on the basis of their perception, understanding and acceptance of the market economy. Then, policy changed quickly, entailing transformations of the relative role of enterprises and the state. State-owned enterprises in the traditional regime of the planned economy gradually acquired autonomous decision-making capacity, which, coupled with the emergence and strengthening of various types of shareholding companies and foreign investment inflows, further marketized Chinese enterprises and gave them more space to engage in different types of cooperation. At the same time, these enterprises became increasingly involved in economic reforms. Last but not least, the increasingly profound impact of the business sphere on the economy, society and environment has prompted stakeholders, such as government agencies, the public, supply chain partners, financial institutions and industrial associations, to interact with enterprises in different dimensions, to exert positive, lasting impacts on the economy, society and environment. As such, the private sector gradually took on a bigger role in public life and prompted the development of a corporate social responsibility system in China.

Three key interconnected and constantly evolving actors, namely the government, enterprises and stakeholders, like a gearing chain, have run throughout the 40 years of Reform and Opening Up, forging the Chinese business ecosystem from three different components: economic policymaking, business entities and stakeholder value. Their evolution and evolving interactions produced a more enhanced economic policy framework, more capable and flexible market entities and a gradual development of a Chinese CSR system.

An in-depth study will help us summarize the experience and lessons of Reform and Opening Up and guide China’s economic and social development in the New Era, as the period after 2012 is conventionally called. The relationship between building the business environment and social and environmental development has been a part of the Chinese govern-
ment’s experience in Reform and Opening Up over the past four decades. For instance, as stressed by Xi Jinping in his *Speech at the Meeting Celebrating the 40th Anniversary of Reform and Opening Up*,¹ over the past four decades, “we have persistently taken economic development as the central task and kept releasing and developing the productive forces...ensured and improved living standards through development...protected the environment and conserved resources, and promoted ecological progress.”²

Figure 1.1: Key elements of China’s business ecosystem

This report intends to showcase the emergence, development and improvement of the business ecosystem in light of the evolution of its three key determining elements - policies, enterprises and stakeholders, since the launch of Reform and Opening Up. Furthermore, it illustrates the historic connection between the transformation of China’s business ecosystem and China’s general development and the lessons this experience holds for China and beyond.

Chapter II discusses how policies have promoted the creation of the business environment in the four historic periods of Reform and Opening Up, including how the “delegation of power”³ in the early period of Reform and Opening Up increased the added-value of enterprises; how the reform of state-owned enterprises (SOEs) broke down the barriers to

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¹ Ibid.
² Ibid.
³ fangquan 放权. See Chapter 2.1.1.
productivity; how the accession to the World Trade Organization (WTO) improved concepts such as corporate responsibility and sustainable development in China; and how deepening comprehensive reform in recent years stimulated the high-quality development of enterprises.

Adopting the traditional historic divisions of the Reform and Opening Up era, Chapter III describes the economic, social and environmental impact of Chinese enterprises and the business environment on Chinese society. The chapter shows how the transition to a market-based economy contributed to the diffusion of a range of new social and cultural norms, how the unleashing of corporate productivity impacted Chinese society in a conspicuous way, how the integration of Chinese enterprises into the global value chain restructured economic and social relations and how new concepts, such as corporate social responsibilities will define and influence the New Era of social development.

On the basis of the opportunities and challenges offered by the Chinese business environment for social development, Chapter IV analyzes how the four most important stakeholders in the Chinese business ecosystem respond and influence enterprises in their transformation process and impacts on society. These include the government and its policies promoting corporate health, responsible and sustainable corporate strategies; international organizations and their introduction of advanced experience, practices and know-how; industrial organizations and their innovations to improve corporate responsibility and sustainable development; and various social organizations and their critical roles in public supervision, cross-area cooperation and awareness-raising so as to bolster the social impacts of enterprises.

Lastly, Chapter V sets forth recommendations with regards to policies, corporate actors and stakeholders on how China can promote the sustainable development of Chinese society and, through its investments and cooperation overseas, the global community by creating a healthy global business environment.

- **Policy level.** The Chinese government should introduce effective policies to further improve productivity and stimulate the vitality of enterprises. It should put in place an economic growth policy system conducive to sustainable development to promote the coordinated development of the economy, society, and the environment, and simultaneously boost economic, green, and people-oriented development.

- **Business level.** Enterprises should view social responsibility as resources and a competitive edge. The concept of sustainable development should be the main driver in their relationships with other stakeholders.
• **Stakeholder level.** To ensure that enterprises generate sustainable and inclusive impacts, the government should support the development of civil society organizations including the media, which a prerequisite for building a modern social governance system. It should also promote the participation of different social entities in the business ecosystem and effectively allocate resources to different stakeholders to improve resource efficiency in the whole society.
Chapter 2
40 years of Reform and Opening
Up and the evolution of the
business ecosystem in China

The Reform and Opening Up process launched 40 years ago is first and foremost an economic proposition. In fact, Reform and Opening Up is primarily the process by which the Chinese government has, through policy changes, promoted the transformation of the business sector in terms of structure, modes, and behaviour, driving the sustained development of China’s economy. In other words, by constructing, improving and adjusting the business ecosystem at the policy level, Chinese policymakers have enabled enterprises to make efficient and sustained contributions to economic growth.


1. “Delegation of power and profit sharing”¹

The beginning of the reform process in China was triggered by the article titled Practice is the Sole Criterion for Testing Truth, published in the Guangming Daily on May 11, 1978. This initiated a heated debate, giving rise to a movement not only urging the whole society to reflect on the planned economy, but also encouraging people to oppose and eliminate...

¹ Two key measures had been taken in an attempt to reform Chinese SOEs in the 1980s: the first measure was to increase the operational autonomy of managers, known as “delegation of power” or “decentralization of power” (fangquan 放权); the second measure was to strengthen incentives by allowing managers and workers to retain some profits and benefit from performance improvement in their factory, in the forms of increased bonuses and benefits, known as “profit sharing” (rangli 让利).
“unreasonable practices”. After years of stagnation, intense reflection was made on drawbacks and inefficiencies in the economic and social spheres. At that stage, though, the goals and directions of future reforms were still unclear.

Against this backdrop, China’s top policymakers opted for the path of “crossing the river by feeling the stones”: taking a gradual, experimental and pragmatic approach that builds on past successes. In July 1979, the State Council issued a series of documents such as the *Provisions on Expanding the Management Autonomy of State-owned Industrial Enterprises*. Some provinces and municipalities launched pilot projects at some state-owned factories, in accordance with the guidelines of this document.

This reform mainly included two aspects. First, “delegation of power”, which aimed to change the relationship between enterprises and relevant government departments under the planned economy. It relaxed control over enterprises by reducing and simplifying the indicators set by the government, allowing the former to make their own decisions in relation to production and management based on the needs of society. Second, “profit sharing”, which allowed enterprises to retain a certain proportion of profits, which could be shared with their employees, through “incentive funds” and other means.

The reform of granting decision-making power to enterprises and allowing them to keep more profits were powerful incentives for SOEs and their staff. By 1980, the number of pilot enterprises involved in the reform had grown to more than 6,600. Their output value and profits accounted for 60% to 70% of the total industrial sector. In the absence of certain market mechanisms, such as competition and supply-demand driven decision-making processes, however, these enterprises, instead of exercising their decision-making powers according to market demands, indiscriminately increased the scale of production and were arbitrary in their use of factors of production, resulting in a huge waste of resources. SOEs fell short of their production and income targets, also causing fiscal shortages and disruptions in the overall economy.

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1 The article titled *Practice is the Sole Criterion for Testing Truth* challenged beliefs and practices including the “two whatevers”. This gave rise to a nationwide “Debate on Standards for Judging the Truth”, which ideologically paved the way for the convocation of the Third Plenary Session of the Eleventh Central Committee and later the Reform and Opening Up policy in 1978.

2 “Incentive funds” refers to one of the key measures of economic reform in the 1980s that aimed to improve the operation of SOEs through allowing SOEs to retain profits generated beyond mandatory targets. Part of the retained profit could be used to provide bonuses to reward better-performing individual managers and employees, which helped generate profit motives inside SOEs.

2. Incremental reform

The central leadership, represented by Deng Xiaoping, began to adjust the focus and direction of the reforms. It shifted the focus to rural areas where the resistance to reform was relatively minor, opening up a new path where reform proceeded from “inside the system” to “outside the system”, from urban areas to rural areas, from SOEs to non-SOEs.

During the planned economy period, the production mode of rural community enterprises (people’s communes and production teams) separated farmers from traditional household-based small-scale farming, preliminarily achieving organized agricultural operations. The people’s communes, however, mainly engaged in agricultural production and had no autonomy over production decisions and operations, so they were not “enterprises” in a strict sense. In September 1980, the Communist Party of China’s (CPC) Central Committee promulgated the *Several Issues on Further Strengthening and Improving the Household Responsibility System*, giving recognition to the practice of contracting land and production to farmers. In the following two years, the new agricultural production model gained ground rapidly throughout the country. The productivity gains that the reform generated greatly increased the commitment of farmers and drove the rapid development of the rural economy.

At the same time, productivity gains from this agricultural production model laid the foundation for the development of TVEs. The considerable surplus of rural labour that the reform generated turned to the light industrial sector: the collectively owned TVEs started to flourish.

From 1990 to 1999, the total output value of TVEs surged from CNY 958.1 billion to CNY 10,052.46 billion, with an average annual growth of 29.8%. The annual growth rate of their total output value reached 65% in 1993, the highest in the 1990s. According to the available statistics, it is estimated that in 1998, there were more than 20 million TVEs and over 5,600 larger enterprises with an output value exceeding CNY 100 million.

After the success of the incremental reform in agriculture and rural areas, the Chinese

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1. The Household Contract Responsibility System (*jiating lianchan chengbao zerenzhi* 家庭联产承包责任制) was a collective economic operating system adopted by China after the launch of the Reform and Opening Up policy. Under this system, the economic collectives served as the contractor, and the rural household as the contractee. The contracted rural households independently produce and manage in accordance with the contract; and except for the products that are required to be given to the collectives in accordance with the contract, the rest is at the disposal of the households.


government extended this experience to urban economic reform. Under the premise of maintaining the operating institutional framework and keeping the status and functions of the public economy in urban areas unchanged, restrictions on economic activities of the private sector were relaxed, opening up market space for the development of the private economy. At the same time, the domestic market was further opened to foreign investors, so the non-state-owned economy (private economy, collective economy and foreign-funded economy) thrived outside the state-owned system.

3. The emergence of a business ecosystem

After the Third Plenary Session of the 11th CPC Central Committee held in Beijing in December, 1978, the Chinese government introduced a series of policies aimed at promoting the recovery and development of the non-public economy, such as the Provisions on Urban Non-Agricultural Private Businesses issued by the State Council on July 7, 1981, and the Provisions on Rural Private Businesses issued on February 27, 1984. The Amendment to the Constitution adopted at the Fifth Session of the Fifth National People’s Congress on December 4, 1982 explicitly states that “small businesses run by urban and rural residents are a supplement to the socialist public economy”,¹ which guaranteed the legal status of privately-owned small businesses in the national economy. After that, small businesses were gradually revitalized and became one of the most dynamic economic components in the process of marketization.

At the same time, to further integrate the factors of production such as land and labour and to bridge the financing gaps, the Chinese government took a variety of measures to create an enabling business environment for foreign investment and an enabling policy environment supporting market access for foreign-funded enterprises. From 1979 to 1984, the Law of the People’s Republic of China on Chinese-Foreign Equity Joint Ventures, and the Law of the People’s Republic of China on Income Tax of Foreign-invested Enterprises were enacted successively, allowing foreign investors to have clearer institutional expectations. The improved policy environment, the abundant and well-trained labour force and relatively low costs were highly appealing to foreign investors, so a large amount of foreign capital began to flow into China. This played an important role in China’s economic growth and the upgrade of its industrial structure.

In addition to these policy changes, the central government established special economic zones (SEZs) which helped regions and provinces opening up to the outside world, fostering a modern business ecosystem on a larger scale.

Facing dual resistance from leftists and system inertia, the Chinese government chose to first open up several areas in the south-eastern coastal regions adjacent to Hong Kong, Macao and Taiwan, where traditional heavy industry and the planned economy was not as dominant, and where there were a large number of overseas Chinese, so that local people were more likely to be receptive to the concepts of a commodity economy. By the mid-1990s, there was a tiered Opening Up pattern, and the eastern coastal areas ranging from the Liaodong Peninsula to the coastal areas of Guangxi became a contiguous market-oriented dynamic region.

Box 1: The role of SEZs in shaping the business ecosystem in China - the Shenzhen SEZ

A “Special Economic Zone” (SEZ) is defined as an area that functions with different administrative, regulatory and fiscal regimes from the rest of the country. These different rules concern investment conditions, taxation and international trade regulations and typically aim to ensure that the business environment is more liberal and has more efficient administrative procedures than those prevailing in the rest of the economy. The most common forms of SEZs include export processing zones, free zones, free trade zones and industrial parks.

China’s Shenzhen SEZ is a good example on the role that SEZs played in shaping the business ecosystem. After decades with a traditional planned economy, the government decided that SEZs should be implemented to open up certain areas to the outside world and experiment with market-oriented economic reform. The Shenzhen SEZ was established in May 1980 and was the first SEZ in China, followed by three others in Guangdong and Fujian provinces.

SEZs like the Shenzhen SEZ successfully served as the test case for the new market-oriented policies and institutions. Shenzhen had introduced a series of reform measures in the market system, contract system and joint-stock system for enterprises, property rights transfer and bankruptcy, finance, taxation, foreign trade, foreign exchange, management of state-owned assets, land use system, housing system etc. Thus, in SEZs, preferential policies were granted to exporting countries, setting a precedent in terms of price liberalization, free trade of land use rights, introduction of foreign investment, etc., which freed SEZs from the centrally planned economy and contributed to their take-off. After the success of the first SEZs, those economic policies and institutions have been gradually adapted and rolled out throughout the rest of the nation.

SEZs have made significant contribution to the rapid growth in GDP, employment, exports

40 Years of Reform and Opening Up and the Evolution of the Business Ecosystem in China

From 1980 to 1984, when the national GDP growth rate reached around 10 per cent, Shenzhen grew at 58 percent on average.\(^1\) As well, the SEZs also played an important role in helping China move toward a more competitive economic development paradigm. From 1986 to 1991, in the Shenzhen SEZ, an economic system based on market regulation supplemented by planning adjustment was initially formed. In the meantime, in the 1980s and 1990s, more and more foreign-invested enterprises flowed to Chinese SEZs, bringing in investments, skills and knowhow in management and technologies. Driven by the catfish effect and demonstration effect of foreign firms, Chinese private firms actively learned from their foreign-funded peers, and grew steadily. In addition, the gap in efficiency between foreign and private-owned and state-owned enterprises also pushed for deeper reform in Chinese SOEs in property rights and corporate governance.

This economic success significantly increased people’s income and earning capacity, and coastal areas that contained SEZs have enjoyed greater economic benefits compared with regions where SEZs were created later and inland regions with no SEZs. Furthermore, as more resources and human capital were invested in the regions with SEZs, those regions developed better infrastructure, human resources and more opportunities of economy of scale for foreign investors. With rising inequality, the widening gap between rich and poor and between different regions garnered public concern. The 3rd Plenary Session of the 14th Central Committee of the Communist Party of China (CPC) in 1993 adopted the *Decision of the Central Committee of the Communist Party of China on Some Issues Concerning the Establishment of the Socialist Market Economy* and proposed “efficiency first and also give due consideration to fairness”; and the report of the 15th National Congress of the CPC in 1997 further reaffirmed and emphasized the importance of fairness.

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In brief, the reform period from 1978 to 1992 was an exploration of the path to transformation without clear expectations and objectives. Its core logic was to explore a totally different economic model from the planned economy and look for a market-oriented development path with relatively little resistance and low transformation costs. Unlike in the past when enterprises had no autonomy, market entities including private enterprises and foreign-funded enterprises could make decisions about their own operations and take responsibility for their own profits and losses. This business ecosystem was developing in coastal cities and in comprehensive experimental zones of economic reform, and it was thriving. In this process, the government’s institutional support played the most important role.

II. 1992-2001: The “dual-track system” and SOEs’ enhanced reform

1. The drawbacks of the dual-track system

The above-mentioned measures, such as promoting the development of the private economy, introducing foreign capital and developing the regional market system while maintaining the public economy structure, created an enabling environment to advance reform in an orderly manner, maintaining the stability of the political and economic system throughout the country. It also made it possible for some inevitable negative consequences, such as unemployment and layoffs, to happen gradually and slowly. This incremental reform strategy supported private enterprises’ development, fostered entrepreneurship and made important contributions to the success of economic reform in China.

However, it also gave rise to a “dual-track” system under which the planning track and market track coexisted as a means of resource allocation and pricing mechanisms. Its most prominent manifestation was the co-existence of planned and market-based pricing mechanisms for production factors and commodities, leading to a “planned price” and “market price” and a “price gap” between them.

The dual-track system served as an important buffer in reducing the resistance to institutional reforms and promoting the development of the market system. However, in the transition period, it distorted the market-based pricing mechanism and hindered the development of the business ecosystem. To eliminate the distortion and domination of power over the pricing regime and build a sound business ecosystem for a modern market economy, it was imperative to eradicate this transition period practice and move from partial reform to comprehensive reform.
2. The reform of SOEs

At the beginning of 1992, during his tour around Southern China, Deng Xiaoping marked a new starting point for China’s Reform and Opening Up process. The following October, the 14th CPC National Congress set a new reform goal: establishing a socialist market economy, which was formally adopted at the Third Plenary Session of the 14th CPC Central Committee in November 1993, with the Decision on Several Issues Concerning the Establishment of a Socialist Market Economic Structure. The Decision broke ideological restraints, rejecting linking planned or market-based economic regulations to ideology. It put forward a series of fiscal, taxation, financial and corporate system reform objectives to promote the development of a market economy.

One of the keys to breaking the dual-track system and establishing a unified market was to remove ownership obstacles and making substantial progress in the reform of SOEs. A fundamental aspect of ideological resistance to the reform of SOEs was the percentage of the economy that was state-owned, a metric often used as a yardstick for how socialist the country was. In response to this problem, the 15th CPC National Congress in 1997 stated that the different forms of ownership are part of the “basic economic system” at the early stage of socialism.¹ The 1999 Amendment to the Constitution stipulates that “During the early stage of socialism, the State adheres to the basic economic system with public ownership remaining dominant and diverse sectors of the economy developing side by side”,² “the non-public economy that consists of the individual economy and the private economy³ within the limits prescribed by law, is a complement to the socialist public economy⁴ and “the State protects the lawful rights and interests of the individual economy.”⁵ This not only granted equal legal status to the private economy and the public economy but also called for the adjustment and improvement of the ownership structure.

First, the principles of “developing what should be developed, withdrawing what should

¹ A decision on economic restructuring adopted unanimously by the 12th CPC Central Committee at its third plenary session in October 1984 defined China's socialist economy as "a market economy based on central planning and public ownership". The decision pointed out that the development of a market-oriented economy was an inevitable step in China's social and economic development and a prerequisite for economic modernization. It added that "central planning and a focus on market mechanisms and development of a market economy were not mutually exclusive, but could be mutually complementary, and that it was wrong to pit one against the other".


³ Individual Economy (geti jingji 个体经济) refers to small-scale, privately-owned enterprises, operated by individuals or households, which covers a broad range of sectors that are closely related to people's daily life, especially in service sectors.


be withdrawn, doing what should be done while leaving others alone”¹ was followed by adjusting the industries and fields in which the SOEs were engaged. SOEs underwent great changes as many withdrew from sectors and areas that were not critical to the national economy. Second, the state-owned economy itself also began to experiment with various forms of public ownership—e.g. joint-stock, cooperative, joint-stock cooperative, contract management responsibility,² and leasing, so as to address the problem of “the absence of personalized owners”. Third, preferential tax and financial policies were introduced to encourage the development of the private sector and to create a fair and enabling business environment, so that the non-public economy could become an important part of the socialist market economy.

In the following years, China made notable progress in adjusting and improving its ownership structure, which saw a shift from the dominance of the state-owned economy to the development of enterprises of various types of ownership. The private economy, except in some government-led industries, gradually became the largest economic sector. The coastal provinces gained competitive edges with diverse forms of ownership developed side by side.

3. Challenges towards an integrated market

As the Opening Up process progressed, many small and medium-sized SOEs and TVEs affiliated to local governments were comprehensively restructured, with most of them turned into individually owned or joint-stock companies. Despite the changes on the ownership side, slow progress was made in deepening the reform aimed at creating a fair, unified and orderly market, mostly because:

- **Market entities.** When it came to dominant SOEs in key industries such as energy, telecommunications, petroleum and finance, the pace of reform slowed down markedly amid heated debates about whether SOEs should “advance” in or “withdraw” from those industries.

- **Market regulation.** Administrative control was the main measure of macro-economic regulation and control, by which the related ministries and central commissions regulated investment and production activities in sectors including iron and steel,
electrolytic aluminium, and cement. However, some government departments wrongfully strengthened intervention and control of the economic activities at the micro-level in the name of “macro-control”, undermining the basic role of the market in resource allocation.

- **Market ecosystem.** Some important structures of a market economy, such as well-regulated financial markets and the legal system necessary to support it, had not been established at this stage. In the face of intensified market competition, many enterprises sought to control costs or maximize profits by crossing legal and moral lines, leading to a growing number of problems relating to labour rights, environment, working conditions, and product quality. Through the transmission and multiplier effect of the supply chain and value chain, such unethical means of competition resulted in serious damage to the business environment and business ecosystem.

### III. 2002-2012: China’s accession to the WTO and Chinese enterprises’ ten-year boom

#### 1. Enterprises’ power increases

The process of China’s economic reform has also been a process of re-positioning the roles, powers and functions of enterprises and the government. On the one hand, benefiting from an improved market mechanism, many enterprises amassed huge assets and started to have wide and profound impacts on society. For example, in 2008, China Petrochemical Corporation (Sinopec Group) registered sales revenue of CNY 1.23 trillion, almost equal to the CNY 1.26 trillion GDP of Sichuan Province, which ranked ninth¹ in the country.

On the other hand, the government’s authority and capacity to intervene in corporate activities were more regulated by the deepening of market reforms and the accelerated participation in globalization. For example, with the separation between government and state-owned enterprises’ operations and the development of the private economy, the government could only influence the production and operation of enterprises at the macro level, through fiscal and taxation policies for instance, but could not interfere in their specific decision-making as much as in previous periods, particularly for privately owned companies.

The regulatory bodies were unable to accommodate the rapid development of the market economy due to their own constraints and limitations, experiencing overlaps in functions,

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repeated law enforcement, and regulatory gaps. So, the development of the legal system and corporate culture befitting a market economy lagged, lacking an effective policy framework, institutional mechanisms and self-discipline by enterprises themselves. The speed and scale of transformation implied that certain aspects were overlooked, such as fostering corporate values and ethics. A key factor influencing the market and society became stakeholder value. The government failed to establish clear mechanisms for linking the objectives of enterprises with the values, principles and priorities it advocated, resulting in the absence of corporate ethics, values and norms needed to avoid the negative consequences of an unregulated market economy.

The absence of external constraint policies and lack of corporate culture gave rise to a “soulless market economy” and the unconstrained pursuit of profits inevitably caused social tensions. The situation required more structural changes to address ethical gaps.

2. The accession to the WTO and the introduction of new concepts

For a long time, under the constraints of a large population and relatively weak technological capacity, China had adopted a growth model based on high resource- and energy-consuming and labour-intensive industries, inevitably giving rise to problems such as resource waste, environmental pollution, relatively low wages, and poor working conditions.

Since China’s accession to the WTO in 2001, a wider range of stakeholders were exposed to such issues, as labour-intensive products made in China entered international markets, especially in western countries. At the same time, the increased outsourcing of production from developed countries to low-income countries, including China, generated discussions in the international community about the impacts of business operations and investment on social and environmental conditions in China.

Upon becoming a new member of the WTO, Chinese enterprises also started to face new obligations attracting more investment and commerce opportunities. They were expected to align with the standards and requirements of developed markets, posing new challenges to the Chinese government in how to empower Chinese enterprises, especially SOEs, and in how to define the boundaries and scope of government regulation per se.

Concepts such as labour protection, human rights, and sustainability, among others, were introduced to Chinese enterprises as they entered the global supply chain. As more and more multinational companies and civil society organizations (CSOs) developed codes of conduct, industry standards, and initiatives to enhance corporate responsibility they
increasingly required that relevant suppliers, distributors and business partners follow their lead to mitigate negative impacts and foster more sustainable development. Corporate social responsibility (CSR) requirements started to be applied to Chinese suppliers and partners too, playing a positive role in promoting China's economic and social development.

CSR and increasing pressure from civil society and organisations aimed to prevent enterprises from seeking to control costs and boost profits through “irresponsible behaviour”. That said, CSR, brought to China by multinationals stakeholders, was also seen as an exogenous mechanism. At that stage it was not fully accepted by Chinese enterprises, or mainstreamed into management and turned into voluntary, conscious, and self-disciplined action.

3. A modern business ecosystem in its infancy

In spite of the crisis in values in the rapidly developing business community in China, it is worth noting that at this stage, a modern business ecosystem was beginning to take shape. Various industries and enterprises of different sizes achieved unprecedented development also because of the improved enabling policy environment that was being set up. An ecosystem and supply chains based on business connections between enterprises gradually took shape. However, it become apparent that stronger value connections and regulations were also required.

A benign business ecosystem should be based on a spontaneous consensus on key corporate values and responsible business strategies. Otherwise, it may not only fail to sustain the development of the enterprises but may also have destructive effects on the whole society. The negative consequences of extensive economic growth and a lack of a clear framework for sustainable development within the business ecosystem, coupled with the shock generated by the aftermath of the 2008 financial crisis, pushed the government to launch a new round of reform.

IV. 2012-present: Deepening reform and pursuing sustainable development in the New Era

1. Improving management systems and promoting SOE adaptation to the market

Through international trade and overseas investment, the in-depth integration of China’s economy and the global supply chain provided a valuable opportunity for the rapid development of SOEs since the beginning of the 21st century. However, as mentioned above, SOEs also posed challenges to China’s market mechanism and status at both the
international and domestic levels. In this context, the Third Plenary Session of the 18th CPC Central Committee held from November 9-11, 2013 decided to “improve the management system of state-owned assets, and strengthen supervision of state-owned assets, with a focus on capital management”\(^1\) The State-owned Assets Supervision and Administration Commission of the State Council (SASAC), the responsible government department for SOEs, developed top-level regulations and plans to establish state-owned capital investment and operation companies, with the aim of deepening SOE reform.

The creation of a state-owned capital investment company is expected to mark a step in turning state-owned competitive enterprises into financial holding groups through capital integration. For state-owned companies in competitive industries, there would be no need for state-owned capital to maintain absolute control of the ownership structure. The share of state-owned capital would be gradually reduced through mixed ownership reform. Measures such as reducing government interventions, streamlining the administrative approval process and improving management and decision-making efficiency will also help enhance the competitiveness of such enterprises. Moreover, SASAC would no longer directly manage enterprises or participates in their daily operations, while a state-owned capital investment company would manage enterprises as an investor.

Established by SASAC, the state-owned capital operation companies manage strategic enterprises and public service enterprises under SASAC. From the perspective of the ownership structure, a state-owned capital operation company gradually introduce diverse investors through mixed ownership to enhance the enterprise. At the same time, from the perspective of national strategies and economic security, a state-owned capital operation company maintains control over strategic SOEs. This round of SOE reform aims to enhance the role of SOEs in economic and social development based on the current circumstances and characteristics of China and follow the logic of incremental reform to turn SOEs into market entities.

### 2. Harmonization of government functions

Another important reform concerning government-enterprise relations was the reform of government departments. The basic principle is to optimize the setup of government departments and functions, harmonising their responsibilities for an efficient use of their resources. This reform of government departments should not only address the problem

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of overlapping law enforcement, but also promote the transformation of government functions from an administration-oriented government to a service-oriented one, better adapted to the requirements of a market economy.

For example, to address problems such as management of public goods and their externalities, the newly established Ministry of Natural Resources is responsible for overall protection and comprehensive management of mountains, rivers, forests, land, lakes and grasslands. The Ministry of Ecology and Environment, which was established by integrating the functions of various agencies under the former Ministry of Environmental Protection, is responsible for supervision of pollution emissions in urban and rural areas, for administrative and law enforcement, and for environmental pollution control. The relevant responsibilities of the former State Administration for Industry and Commerce, General Administration of Quality Supervision, Inspection and Quarantine, and the China Food and Drug Administration have been integrated into the newly established State Administration for Market Regulations.

3. Promoting sustainable development

After the past four decades of rapid and extensive development, China’s environment, energy resources, and labour force, among others, are facing severe constraints, unable to withstand the pressure of the economic growth model and meet “the people’s growing need for a better life”.¹

An important feature of the New Era is that the Chinese government has incorporated “sustainable development”² into its social and economic development strategy and policy. Based on the concept of “innovative, coordinated, green, open and shared development”, the Outline of the 13th Five-year Plan adopted in 2016 sets out the requirement of integrating ecological progress and green development into all aspects of economic and social development, putting a premium on the quality, efficiency, fairness and sustainability of development. The Plan makes improving people’s well-being and promoting their all-round development the ultimate goal, reflecting the principles and concept of sustainable development.³ The 19th CPC National Congress called for efforts to “develop eco-friendly

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growth models and ways of life” and “pursue a model of sustainable development featuring increased production, higher living standards, and healthy ecosystems”.

In September 2015, China, along with other countries, adopted the new UN Sustainable Development Goals (SDGs). The SDGs, in line with the Chinese government targets of sustainable economic, social and environmental development, constitute the core framework for China to contribute to sustainable development at home and abroad. In October 2016, China released the National Plan for the Implementation of the 2030 Agenda for Sustainable Development, becoming the first country among the major powers to launch such a plan. In December 2016, the State Council issued the Plan for the Construction of Innovation Demonstration Zones for the Implementation of the 2030 Agenda for Sustainable Development, and proposed to develop practical models and innovation demonstration zones for sustainable development to set an example for other regions, and provide lessons learned from Chinese experiences for other countries in the implementation of the 2030 Agenda. In August 2017, China released the Progress Report on the Implementation of the 2030 Agenda for Sustainable Development, making it one of the first countries to release a progress report.

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Chapter 3
The Reform and Opening Up policies have brought about the transformation of the business ecosystem in China, which inevitably has had profound impacts on sustainable development. First, the transformation of the business ecosystem has promoted economic growth and the improvement of people’s lives, thus directly advancing human development. Second, it has created new social issues and fostered the creation of new types of civil society organizations (CSOs) and social undertakings. Third, China’s economic transformation caused environmental pollution: with economic development gaining speed, its impact on the environmental has become increasingly complex and profound.

I. Emergence of market awareness and new social and environmental issues (1978-1991)

After the Reform and Opening Up process was launched in 1978, economic changes ushered in a new period of major transformation for Chinese society. With the transition from a highly regulated traditional society to a modern society, social structures and people’s codes of conduct and values also changed. People’s standard of living gradually improved, and new social issues emerged.
1. Greater material wealth and market diversification

First, the consumer market saw tremendous changes as China was transitioning from a period characterized by commodity shortages to that of a structural surplus. Increases in household income strengthened people's spending power, leading to the upgrade of consumption. People started to buy non-necessities, as the charts below shows.

**Figure 3.1: Total retail sales, 1979-1991 (CNY 100 million)**

**Figure 3.2: Production output of TV sets, 1979-1991 (10,000 units per year)**

*Source: Based on the annual statistical bulletins released by the National Bureau of Statistics of China.*
Second, as employment opportunities arose, wages grew steadily during this period, as did savings deposits of both urban and rural residents. Along with the surging economy and increasing wealth, there was an increasing pursuit of material gains. At the same time China also witnessed a boom in demand for nontangible assets among the public. More and more Chinese people aspired to acquire diverse life experiences as well as material wealth, as can be seen from such phenomena as “knowledge-seeking fever” and “study-abroad fever”.

**Figure 3.3: 1979-1991 Average wage of formally-employed workers (CNY)**

**Figure 3.4: 1980-1991 Savings deposit balance of urban and rural residents (CNY 100 million)**

*Source: Based on the annual statistical bulletins released by the National Bureau of Statistics of China.*
Third, economic growth also generated more diversified job options, and labour movement restrictions were relaxed allowing for an increase in internal migration. In rural areas, the household responsibility system boosted agricultural production and paved the way for the transfer of the rural surplus labour force. Meanwhile, the gap between urban and rural development drove rural surplus labour to migrate to cities. The non-public economy was no longer forbidden, and in urban areas, individual economy business owners emerged as a new occupation. Numerous unemployed people, including “returned” youth who had been sent to the countryside during the Cultural Revolution, started their own businesses in retail, services and other fields. In addition, more and more people began to work in TVEs and private enterprises.

### Box 2: Migrant workers and the “tide of migrant labour”

Migrant workers emerged in China during the period of Reform and Opening Up, industrialization and urbanization. In 1984, Zhang Yulin, a researcher at the Chinese Academy of Social Sciences, used the term “migrant workers” for the first time in an article published in the *Journal of Sociological Research*. However, it wasn’t until the eve of the Spring Festival in 1989, that concepts like the “overflow of migrant labour” emerged. From 1978 to 1984, rural surplus labour began to migrate to economically developed coastal areas, but the majority was still being employed in local TVEs. Since the mid-1980s, migrant flows continue to increase thanks to the development of the tertiary sector in urban areas, attracting a large amount of rural labour to cities. At the end of 1994, the number of rural people moving to cities reached 70 million. Migrant workers, a new social group, have made and continue to make great contributions to China’s economic and social development. That said, new social problems and issues have also arisen, such as the “Spring Festival travel rush”, “left-behind women”, “left-behind children”, “hollow villages”, “demanding unpaid wages before the Spring Festival”, and “protection of the rights and interests of migrant workers”.

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2. Emergence of diversified social issues

Early in the Reform and Opening Up period, because of the deficiencies in the government’s management policy, enterprises often emphasised profits over products’ quality, among other things.

First, counterfeit and low-quality products appeared and became rampant, which, in
addition to false advertisements, harmed the rights and interests of consumers and even negatively impacted personal safety. The contract management responsibility system granted more power to SOEs. As a result, some raised prices arbitrarily to transfer their losses to consumers. On the other hand, private businesses and TVEs often had obsolete equipment and technology and outdated production and management concepts and practices, not paying enough attention to product quality. Therefore, the government and the public started to become very interested in consumer protection. In December 1984, the China Consumers Association, a national consumer protection organization, was established in Beijing.

Figure 3.7: Number of quality complaints received by consumer associations, 1987-1991

Data Source: S.H. Ding

Box 3: Development of private-owned businesses- Yueqing County of Wenzhou Municipality

Since 1978, the household responsibility system has freed countless farmers from the constraints of earning their living from working the land. Wenzhou and nearby Yueqing County, had a long-standing business culture and almost all villages and households have started businesses, leading to a booming private sector. From 1978 to 1990, the total industrial output value of Yueqing County surged 10.7 times, with an average annual growth of 22.8%, to which private businesses made important contributions. In 1990, the total industrial output value of Yueqing County reached CNY 1.143 billion. The state-owned economy, municipally owned collective economy, and TVEs recorded an industrial output value of CNY 107 million, CNY 100 million and CNY 92 million, accounting for 9.4%, 8.7% and 8.0%, respectively, while
private businesses at the village level and below posted CNY 688 million, accounting for 60.2%.

After years of development, Liushi Town in Yueqing County, became a hub of low-voltage electric appliance manufacturing, but it was beset by outdated production modes and poor product quality. In 1990, seven ministries and commissions of the central government launched a campaign to overhaul the low-voltage electric appliances industry in Liushi Town. As of October 20, 1990, the government of Yueqing shut down 1,267 stores selling unlicensed, knockoff and inferior products, suspended the business license of 359 stores dealing in used goods of inferior quality and 186 businesses without production licenses, and seized 37,064 unlicensed, fake and inferior electrical products. Through such efforts, the country turned a crisis into an opportunity by pressing enterprises and individual businesses to improve product quality, thus laying a solid foundation for the development of the industry. In 1994, the county rolled out measures to boost the economy, focusing on building brands and quality. The low-voltage electric appliance industry gradually developed into a pillar industry, and large privately-owned enterprises emerged, such as Zhengtai Group, Delixi Group, Tianzheng Group, Huayu Group, People Electric Appliances Group, and Huatong Group.

—— Excerpt from A Review on Economic Development of Yueqing over 40 Years of Reform and Opening Up by the Yueqing Municipal Bureau of Statistics

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Second, labour issues emerged. One of the main purposes of the SOE reform was to delegate power to enterprises and allow managers to take on more prominent roles in business operations and production management. Because of flawed reform measures, however, some SOEs adopted abusive management practices, negatively impacting working conditions, with rigorous control over staff, sharp increases in workload, and arbitrary punishment and dismissal. On the other hand, as private enterprises and TVEs were at the primary stage of rapid growth, they also faced a variety of problems in the protection of labour rights. Specifically, safety was a problem, because of the outdated equipment and production technology. Lack of knowledge about best practices led entrepreneurs to adopt outdated management modes often ignoring the protection of labour rights and the workers themselves, many of whom used to be farmers and had poor awareness of their legitimate rights. In addition, because of the deficiencies in labour legislation, there were also “blind spots” in joint ventures and foreign-funded enterprises. Labour laws and regulations were mainly targeted at public and collective enterprises and did not cover the emerging non-public sector. Overall, the protection of labour rights and workers’ health and safety issues lagged far behind economic development in this period.

Third, a new type of civil society organisation (CSO) emerged. With the expansion of the Opening Up policies and increasing exchanges with other parts of the world, many international organizations, overseas foundations and non-governmental organizations (NGOs) began to work in China. For example, the United Nations Development Programme (UNDP) opened its representative office in 1979. Also, some government-backed NGOs were established, and certain functions were transferred to them from government departments. For example, the China Population Welfare Foundation was set up in 1987 to carry out public interest projects and activities under the guidance of the government. Some non-governmental organizations were also created to address emerging social issues. For example, in 1983, Dashilan sub-district in Beijing’s Xicheng District initiated a household-based voluntary service program.

3. Environmental pollution leads to environmental legislation

Rapid economic development, coupled with inadequate and lax environmental management, led to a huge amount of wastewater, waste gas and solid waste in industrial production and everyday life. TVEs became a new source of pollution. According to the Bulletin on the National Survey of Industrial Pollution Sources in Towns released by the State Administration of Environmental Protection, the Ministry of Agriculture and the National Bureau of Statistics in December 1991, in 1989, TVEs discharged 1.83 billion tons
of industrial wastewater, of which only 14.8% met discharge standards. That year, 2,523 pollution incidents occurred in TVEs. Only 14.4% of them were following an environmental management system that required that pollution control facilities should be planned, built and put into use in sync\textsuperscript{1} with production facilities.\textsuperscript{2}

Environmental pollution pushed the government to take action. Already in September 1979, the *Environmental Protection Law of the People’s Republic of China (Trial)* was promulgated, providing a legal guarantee for the coordinated development of the environment, economy and society for the first time. At the Second National Conference on Environmental Protection in 1983, the State Council declared environmental protection to be a strategic task and a basic national policy in China’s modernization drive. A legal system of environmental protection was established. Later, the Law of the People’s Republic of China on the Prevention and Control of Water Pollution (May 1984), the Law on the Prevention and Control of Air Pollution (September 1987) and the Water Resources Law (January 1988) were enacted, shaping the legal framework for environmental protection.

\textbf{Figure 3.8: Direct investment in industrial pollution prevention and control in China (excluding investment in urban environmental infrastructure construction), 1989-1991 (CNY billion)}

\textsuperscript{1} This refers to the “Three Synchronisations/Three Simultaneous Steps Policy (santongshi, 三同时)” in China that was introduced by the 1989 *Environmental Protection Law*, which requires that (1) the design, (2) the construction; and (3) the operation of a new industrial enterprise (or an existing factory expanding or changing its operations) be synchronised with the design, construction and operation of an appropriate pollution treatment facility.

II. Entrepreneurial potential and the emergence of social organizations (1992-2001)

The 14th CPC National Congress in 1992 set the goal of reform as developing a socialist market economy. The construction of the socialist market economy further boosted productive forces and drastically improved standards of living. At the same time, however, it accentuated old issues, such as lack of integrity, infringement of labour rights and interests, and intensified environmental pollution.

1. Restoration of the economic role of market participants

Attitudes about participants in the non-public economy slowly began changing through the 1980s and accelerated in the 1990s. First, the value of entrepreneurs was acknowledged, reflecting the country’s new and changing perspective on the market economy. In April 1988, the China Enterprise Confederation and China Enterprise Directors Association, together with other organizations, announced the 20 winners of the first national outstanding entrepreneur awards at the Huaiern Hall of Zhongnanhai (the central headquarters of the CPC and State Council) in Beijing. This was a landmark event reflecting the rising status of Chinese entrepreneurs since the launch of the Reform and Opening Up drive.

Second, the value of workers was emphasized. With the establishment of a labour market outside the planned economy, China began to recognize the value of workers. In 1994, the
Labour Law was enacted for the purpose of defining and protecting the basic rights of workers in terms of working hours, salaries and other aspects. By the end of 1999, 30 provinces, autonomous regions, and centrally administered municipalities had adopted the minimum wage system and announced minimum wage standards. With the rising relevance of the private economy and better regulations, private enterprises started to pay more attention to the importance of corporate culture, especially employees’ value and production efficiency.

Third, as the economic roles of market participants such as entrepreneurs and labourers gained recognition, the cultural and intellectual demands associated with economic development were boosted. Continued economic development led to income and wealth growth. Total retail sales jumped from CNY 1,099.37 billion in 1992 to CNY 4,305.54 billion in 2001. The percentage of the population with higher education was on the increase, and access to cultural amenities continued to improve.

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The impact of business ecosystem transformation on sustainable development

Figure 3.10: Average wage of employees by type in China, 1992-2001 (CNY)

Figure 3.11: Enrolment in higher education institutions in China, 1992-2001 (10,000 people)

Figure 3.12: Number of public libraries in China, 1992-2001
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2. Social impact of business

In this period of development, the other side of the coin of value restoration and living standards improvements were:

- **Surge in consumer rights violations.** Some enterprises pursued profits at the expense of ethical and social responsibilities. As mentioned above, poor product quality was a serious problem. According to the statistics of the State Administration for Industry and Commerce, in 2000, industry and commerce administrations at all levels investigated and dealt with 235,000 cases of counterfeit and inferior commodities and 446,000 consumer complaints. Individually owned businesses, collective enterprises, and private enterprises were the three major producers and traders of such commodities and involved 126,300 cases, accounting for 54.8% of the total.¹

- **Growing complexity of labour issues.** Laws and regulations were unable to accommodate the fast changes in the labour market and were not implemented effectively. As a result, serious labour issues arose across the board. According to the Bulletin on the Development of the Labour Market in China 1994, labour dispute arbitration committees accepted 19,098 cases, an increase of 54.5% over the previous

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year. 8,763 of them involved SOEs and 2,974 involved foreign-funded enterprises, accounting for 45.9% and 15.6% of the total.\(^1\) In addition, the negative impact on employment of SOE reforms that pushed them to lay-off workers to increase efficiency, was rendered more severe by the inadequate social security system, and social problems became increasingly pronounced.

\[\text{Figure 3.14: Cases accepted by labour dispute arbitration committees in China in 1994}\]

\[\text{Figure 3.15: Number of laid-off workers in SOEs in China, 1997-2001 (10,000 people)}\]

\(\text{Source: Based on the annual statistical bulletins on labour and social security development}\)

Amid the mounting social problems associated with economic development, and policy transformation, many new types of civil society organizations (CSO) continued to emerge and more and more government functions were taken on by CSOs, after three rounds of restructuring of government administration in 1993, 1998 and 2002. Industry associations including the China Light Industry Council, China Textile Industry Association, and China Iron and Steel Association were founded, as large non-profit organizations such as the China Charity Federation, China Youth Development Foundation, and China Soong Ching Ling Foundation. According to the *Statistical Bulletin on the Development of Civil Affairs 2001*, by the end of 2001, there were 129,000 registered CSOs in China, of which 1,687\(^1\) were operating on a national scale or across provinces. These civil society organizations filled the gap left by the government withdrawing from providing certain services. They also became a link between the government, the market and individuals, connecting an increasingly diverse society in a new way.

At the same time, corporate social responsibility increased. In 1994, at the second session of the Seventh Standing Committee of the All-China Federation of Industry and Commerce, 10 private entrepreneurs jointly initiated the China Guangcai Program\(^2\) for poverty alleviation. In 1998, the Yangtze River and Songhua River basins were hit by extremely serious floods. CSOs supported by enterprises made donations worth about CNY 11.5 billion for emergency services. In order to encourage and regulate donations, the *Law of the People’s Republic of China on Donations for Public Welfare* was then adopted at the 10th session of the Standing Committee of the Ninth National People’s Congress on June 28, 1999.

### 3. Improved environmental management

After 1992, the rapid and unregulated development of private sector enterprises had a variety of social impacts; among them, environmental pollution affected major population centres and extensive regions, putting China in a major environmental crisis. In such a context, pollution attracted considerable public attention, pushing the government to take effective measures.

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2. Organized and promoted by the United Front Work Department of the CPC Central Committee and the All-China Federation of Industry & Commerce, the China Guangcai Program was initiated and implemented by Chinese private employers for alleviating poverty in response to the “8-7” (namely “elevate 80 million rural population out of poverty in 7 years from 1994 to 2000) National Plan for Poverty Reduction launched in 1994, which aims to eliminate poverty in poverty-stricken areas mainly through investments by private enterprises, so as to achieve common development.
There were frequent incidents related to environmental pollution and polluting sources changed significantly. Urbanization, coupled with the improvement in living standards and increased consumption, worsened urban pollution. The consumption of plastic packaging increased rapidly, leading to severe “white pollution”. In 1999, the sewage discharge volume for the first time exceeded that of industrial wastewater.

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1. White pollution refers to pollution caused by refractory plastic garbage; here it mainly refers to pollution caused by the wide adoption of plastic film mulching in rural areas in China.

Environmental protection was identified as strategically significant and the government rolled out measures, policies and models to address environmental concerns. It is worth noting that in the 1990s, China’s industrial pollution control mode shifted from end-of-pipe treatment to comprehensive management.

Chinese policy makers also introduced the “Three Shifts” strategy of pollution control in the 1990s. In 1992, the Chinese government released *Ten Strategies for Environment and Development*, which included a strategy for sustainable development for the first time. In March 1994, *China’s Agenda 21 - White Paper on China’s Population, Environment and Development in the 21st Century* was promulgated, which specifies an overarching strategy, measures and action plans for sustainable development. Among them, China also listed “cleaner production” concepts as one of the key agendas in an initiative promoted by the United Nations Environmental Programme (UNEP) in 1989 that intended to minimize waste and pollution during industrial production.

The legal system for environmental protection also improved. A series of laws on environmental protection were enacted, such as the *Law on Marine Environmental Protection*. 

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1 In the beginning of the 1970s, the strategy of the “Three Shifts” (sāngé zhuanbiàn 三个转变) was introduced, which required: first, the shift from “end-of-pipe” treatment to whole-process control; second, the shift from control of pollutants concentration to control of the total amount and concentration of pollutants; third, the shift from decentralized pollution treatment to the combination of a centralized and decentralized pollution management system.
Protection, the *Law on Prevention and Control of Environmental Noise Pollution*, and the *Law on Promoting Clean Production*. By 2001, 459 environmental protection standards had been formulated. During the 9th Five-Year Plan period (1996-2000), the government successively launched programs for improving the environment of three rivers (Huaihe River, Haihe River, and Liaohe River), three lakes (Dianchi Lake, Taihu Lake, and Chaohu Lake), one city (Beijing), and one sea (Bohai Sea). These measures designed a roadmap for China to address the environmental impact of growth and enterprise development and their impact on social and human development, forming the basis of China's sustainable development strategy.

China dramatically increased its investment in pollution control: from 1995-2000, the total pollution control and treatment investment in China had reached CNY 346 billion.

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**Box 5: Crimes against the environment and natural resources added to China’s Criminal Law**

In 1997, crimes related to impairing the environment and natural resources were included into the revised Criminal Law of the People’s Republic of China, marking a breakthrough in environmental legislation. In July 17, 1998, the Yuncheng People’s Court of Shanxi Province made a landmark ruling in a case of serious environmental pollution against Yuncheng Tianma Paper Plant. Yang Junwu, the legal representative of the company, was sentenced to two years in prison and a fine of RMB50,000. He was the first person sentenced for environmental crimes since they were first added to the Criminal Law.

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accounting for 0.93% of the GDP during this period;¹ and in 2000, the investment volume reached CNY 106.07 billion, accounting for 1.1% of GDP that year.

III. Integration into global value chains and the rebalancing of business priorities (2002-2012)

During the decade after China’s accession to the WTO in 2001, China’s economy continued to develop rapidly and internationalization increased considerably, prompting Chinese enterprises to improve labour management. At the same time, enterprises became increasingly attentive to social development and environmental pollution.

1. International trade and the recognition of CSR

Before China’s accession to the WTO, some foreign purchasers had already started to have more stringent labour and environmental requirements for production when choosing Chinese suppliers to make sure that they could meet certain labour and environmental standards. After 2001, this became common practice, increasing manufacturing costs. Enterprises then faced two questions. First, would costs from higher standards and corporate social responsibility stifle China’s manufacturing sector, which benefits from cheap labour and intensive use of resources? Second, will CSR move enterprises back to the era of a planned economy, when, under the direct management of the state, enterprises prioritized their social responsibilities?

After years of discussion and research, the relevant government departments reached a consensus on the two questions. As Liao Xiaoqi, Vice Minister of Commerce, said in 2006, “to strengthen CSR is not only a necessary way of dealing with trade frictions and ensuring stable growth of the export of labour-intensive products, but also an inherent requirement for transforming the mode of economic growth and enhancing the international competitiveness of Chinese products.” Government support boosted the reception of CSR by society. Labour-intensive industries such as the textile and apparel and the electronics manufacturing industries formulated relevant management systems or guidelines. This included the CSC9000T management system developed by the China Textile Industry Association in May 2005 and the Guidelines on Corporate Social Responsibility for the Electronics and Information Industry by the Working Committee on Social Responsibility of the China Electronics Standardization Association at the end of 2012. These marked the beginning of the systematic response by Chinese enterprises to CSR requirements from the global supply chain and reflected a shift for Chinese enterprises from a passive response to a proactive one.

Box 6: Development and debate over CSR in China

At the same time, one fact that cannot be overlooked is that for a long time, there has been no consensus between the Chinese government, enterprises, social organizations and other stakeholders on the meaning of the broad term ‘corporate social responsibility’. Furthermore, there are many inconsistencies and even direct conflicts in the driving forces, scope and specific actions of CSR.

This is partly due to the absence of a national policy document that defines CSR, its characteristics and its connections with other related important concepts (such as legal responsibility, corporate charity etc.). Although relevant Chinese departments have formulated national standards on CSR, these standards do not align with relevant international standards in many aspects, and thus are not able to guide CSR practices for enterprises at home and abroad.

As well, the overuse of the term CSR by enterprises and social organizations as applied to various issues related to enterprises also creates confusion over the true meaning of the concept. Lack of clarity feeds misconceptions around CSR and has a direct impact on companies and their stakeholders. For example, many companies have equated CSR with charitable philanthropy, an easier activity to implement and to get good publicity about compared to spending the time and resources on identifying and responding to the social impacts of production by taking seriously the implications of CSR.

2. Enterprises’ contributions to social development

During this period, Chinese enterprises achieved success in international and domestic markets accumulating huge surplus funds and strong technological capabilities. At the same time, their understanding of CSR was greatly strengthened, stimulating them to give back to the community. They became a new driving force for the rapid development of social activities.

Enterprises that were among the first to prosper began to participate in and initiate community and public interest projects in a strategic or systematic manner. For example, since 2007 when national statistics on donations were first available, private enterprises have accounted for more than half of the total donations from all enterprises.¹ Some enterprises with long-term commitment towards the local community began to explore new ways of participating in social development, such as setting up foundations. In 2012, there were 400 corporate foundations in China, accounting for 14% of all foundations.²

![Figure 3.20: Public welfare spending of corporate foundations (CNY 100 million)](source)

The devasting Wenchuan earthquake in 2008 was a landmark event for Chinese enterprises’ philanthropy. Total donations to the earthquake-stricken areas exceeded CNY 100 billion for the first time, equalling the total donated philanthropic funds of the previous ten years. More and more enterprises realized that they should “not only know how to make money, but also know how to spend money, i.e., giving back to and integrating into

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the community”.

Although the Guo Meimei incident in 2011 undermined the credibility of the Red Cross and public trust in non-profit organizations and enterprises, the incident also helped increase transparency in the field of public welfare and enhanced the awareness of risk management in organizations, prompting enterprises to be more prudent when participating in public interest projects.

3. Environmental challenges spur further public action

Between 2002 to 2012, public environmental awareness continued to increase, and more people resorted to collective action against environmental pollution. Some projects with high environmental risk encountered resistance from locals who took action such as the protests against the waste incineration project in Panyu, Guangzhou in 2009, the molybdenum-copper project in Sichuan in 2012, or the sewage discharge to sea project in Qidong, Jiangsu in 2012.

In response to such problems, the government increased environmental management efforts. From 2007, the State Environmental Protection Administration (SEPA) introduced new environmental policies and leveraged a variety of tools such as user charges and subsidy programs to guide enterprise behaviour. Specifically, during the 11th Five-Year Plan period (2006-2010), China adopted four types of environmental economic policies to control pollution:

- **Charges**: During this period, different types of user charges for pollution treatment were adopted, such as sewage treatment charges and waste collection and treatment charges.

- **Tax**: In 2004, the State Council of China released a notice to all levels of government agencies, especially the National Development Reform Commission (NDRC), Ministry of Finance (MOF) and State Taxation Administration (STA) and encouraged them to develop environmental economic policies such as environmentally-related pollution taxation.

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2. The controversy over Guo Meimei in 2011 was about a 20-year-old Chinese girl named Guo Meimei, who showed off expensive purchases on her social media platform. She claimed to be working for the Red Cross, although the Red Cross denied this, and rumours that her wealth may have come from corruption in the Red Cross Society of China circulated. The incident damaged the reputation of the charity sector in China.

● **Subsidy**: In 2007, the central government of China set up special funds for pollution reduction projects and construction of sewage treatment systems in the central and western regions. In 2009 China also launched a subsidy programme for energy-efficient products.

● **Progressive utility pricing**: In 2007 China started a series of public utility price reform, such as lowering the grid purchase price of coal-fired plants and charging higher electricity prices for high-pollution industries.

Hence, green credit, green insurance and green securities emerged and had a far-reaching impact. In 2008, the State Environmental Protection Administration was upgraded to the Ministry of Environmental Protection (MEP), shaking off an image of being responsible for "only reducing discharge of pollutants and for collecting pollution charges". The newly established MEP was equipped with more authority, resources and political support to carry out environmental protection related tasks. Furthermore, being granted a position in the cabinet allowed MEP: 1) to influence the decision-making of the central government and thus ensure national policies would take environmental issues into account; 2) to remove environmental protection bureaus at the local level from administration by the local government, greatly improving the enforcement of environmental protection laws and regulations; 3) to carry out inter-ministerial joint meetings to better collaborate with the Ministry of Agriculture, the Ministry of Forestry and the Ministry of Water Resources to

![Figure 3.21: Key Pollutant Emission Trend in China, 2004-2017 (million tons)](source)

Source: National Bureau of Statistics Online Database

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Wastewater (mln. tons)  
COD (mln tons) (Secondary Axis)  
SO2 (mln tons) (Secondary Axis)
integrate resources and improve work efficiency.

The Chinese government began to engage with the public aiming at increasing awareness and incentives for enterprises in favour of environmental protection. It pushed for better environmental information disclosure by enterprises and issued the *Interim Measures for Public Participation in Environmental Impact Assessment* in 2006. In 2009, China attended the UN Climate Change Conference, commonly known as the Copenhagen Summit, and elaborated on China’s commitment to responding to climate change, which gave an impetus to domestic efforts in energy conservation and emissions reduction and gradually put pressure on enterprises.

**IV. New trends in business ecosystem development and sustainable development (2012–present)**

Since 2012, China has entered a “New Era” of development and embraced new development concepts. The government has started to build a new pattern of Opening Up and pushed forward the Belt and Road Initiative. The “principle contradiction” facing Chinese society has evolved into the conflict between unbalanced and inadequate development and the people’s ever-growing needs for a better life. Meanwhile, enterprises have deepened and expanded their efforts to ensure that their products and business activities have positive impacts on the economy, society, and environment in more comprehensive ways.

1. **A new pattern of Opening Up and the growing global presence of Chinese enterprises**

In 2013, Chinese President Xi Jinping proposed the Belt and Road Initiative, giving a significant boost to outbound investment while unveiling a new pattern of opening to the outside world. If financing provided by Chinese enterprises in third countries were included, China’s outbound investment amounted to about USD140 billion in 2014,

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1 “Principle contradiction” is an important concept in Chinese Marxism. Contradictions are defined as “dynamic opposing forces” that a society is facing at any given time. “Principle contradiction” refers to the main challenge of a particular time period. The principle contradiction of the Reform era was defined in 1981 as “the ever-growing needs of the people for material and cultural life and backward social production” and was redefined in 2017 as the “contradiction between unbalanced and inadequate development and the people’s ever-growing needs for a better life” by President Xi Jinping.

2 Financing through third parties refers to outbound investments made through a special purpose vehicle (SPV) set up by a Chinese investor offshore as a means of financing existing Chinese businesses, allowing them to gain the benefit of certain tax and foreign exchange preferences only available to foreign investors. Since 2005, SPV investments have been expressly permitted but only under the close scrutiny of the Chinese State Administration of Foreign Exchange.
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Exceeding its inbound investment by about USD20 billion. China became a net exporter of capital for the first time that year.¹

Chinese enterprises are speeding up their “going global” initiatives. While supporting the development of local economies, they also export certain environmental and social externalities, such as ecological damage and migration, posing a major challenge to Chinese enterprises operating overseas. A survey conducted in 2017 shows that Chinese enterprises overseas considered labour issues (66.15%), environmental protection (47.64%) and community engagement (43.22%) all to have impacts on business operations.²

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These issues have attracted attention from the government. As stated in the Code of Conduct for the Operation of Overseas Investments by Private Enterprises and the Measures for the Administration of Overseas Investment of Enterprises issued by the National Development and Reform Commission, Chinese enterprises operating overseas should “fulfil their social responsibilities”, “attach importance to environmental protection”, and “build a positive image”. It is worth noting that during this period, the Chinese government and CSOs have increased their role and assumed greater responsibility on issues such as global climate governance and responsible mining supply chains.

Figure 3.23: Main challenges facing Chinese enterprises operating overseas

Source: UNDP et al. 2017

Note: The data come from the result of a survey of 543 Chinese enterprises operating overseas in 2017. The respondents were asked to evaluate the level of risks of each challenge given from 1 to 5, with 1 being no risk and 5 being very high risk. From the 490 valid responses, the data in the chart above represents the ratio of respondents who gave an evaluation of 3 and above.

Case Study 1: The formulation of international air conditioning standards- Gree

Standards are measurement tools for product quality and economic activities. Participating in the setting of international standards reflects an enterprise’s capabilities for scientific and technological innovation, its own strength and market presence, as well as the strength of a country’s manufacturing sector. Echoing the level of advancement of their industries, developed countries have formulated 95% of all international standards set by the International Organization for Standardization (ISO). Although China is one of the six permanent members of the ISO, the number of standards set by China only accounts for 0.7% of the total. The international standards submitted by China that have been officially published by the ISO and the International Electrotechnical Commission (IEC) account for only 1.58% of the combined total.
tal, which is incommensurate with China’s status as the world’s second largest economy and trader.¹

With the development of China’s economy and the “going global” initiative, some Chinese enterprises have started to play a role in the formulation of international standards. Their technologically innovative products started to set international standards in relevant sectors, supporting their commercialization on the international market, and improving the companies’ international competitiveness. As one of the first “going global” enterprises, Gree Electric Appliances Inc. of Zhuhai (Gree) has presided over and participated in the development and revision of nearly 300 international and national standards, promoting technology upgrading and leading the development of the industry. Especially in recent years, Gree has played a role in the formulation of international standards for environmentally friendly refrigerant, solar air conditioning, and energy efficient air conditioning, exporting its standards and products to mature markets like the United States and Canada.²

In January 2018, Gree signed a contract with the World Trade Center in Phoenix, Arizona. According to the contract, all of the project’s more than 1,200 air conditioners would be Gree’s proprietary solar-powered air conditioners. The installed capacity of the photovoltaic panels would exceed 6.7 MW, and the total cooling capacity of the project would be more than 4,200 tons of refrigeration, making it the largest solar-powered air conditioning project in the United States and the world. This large order not only marks a significant step for Gree, a leading Chinese manufacturer, in the field of solar-powered air conditioning, but also boosts the confidence of Chinese enterprises in “going global”. In November 2017, Gree participated in the development of the national air conditioning standards of the United States and Canada. Although Gree’s multi-split air conditioner entered the United States just over two years ago, it has soon gained a foothold as it is able to meet the demands and standards of the local market.

To participate in the formulation of international standards and incorporate their innovation practices into these standards, enterprises need to have competitive intellectual property rights and independent technology. Gree has been capable of doing so with its world-leading achievements and a number of original core technologies. By October 30, 2017, Gree had filed 32,850 patent applications and obtained 19,346 patents. In 2015, the Gree Photovoltaic DC Inverter Centrifugal Chiller won the international achievement of the year award of the RAC Cooling Industry Awards, making Gree the first Chinese company to have won this award. In the same year, the Gree Photovoltaic DC Variable Frequency Drive Centrifuge was honoured

Despite outstanding achievements in terms of poverty alleviation, poverty has remained a key challenge for the government over the last 40 years. In the current New Era, the government launched a “targeted poverty alleviation” strategy in 2014, which was designed to “take targeted measures to ensure that assistance reaches poverty-stricken villages and households”\(^1\) to address the conditions of poor people in rural China. Within this framework, in 2015 and 2018, it also issued the *Decision on Winning the Fight against Poverty and the Guidelines for the Three-Year Action on Winning the Fight against Poverty*, highlighting the role of enterprises in targeted poverty alleviation. According to statistics from the State Council Leading Group Office of Poverty Alleviation and Development, the rural population living below the current poverty line decreased from 98.99 million at the end of 2012 to 16.6 million at the end of 2018, a decrease of 82.39 million, and the poverty rate declined from 10.2% to 1.7%\(^2\).

Following this policy guidance from the government, more and more enterprises are contributing to targeted poverty alleviation through industrial development, finance, and technology, which has not only promoted economic and social development in poverty-stricken areas but also opened up new spaces for the development of enterprises themselves. In general, enterprises participate in targeted poverty alleviation through four approaches: i) providing factors of production for poverty-stricken areas, ii) helping them to foster industry clusters, iii) tapping into their market potential and iv) helping to create an enabling environment for poverty alleviation by leveraging their advantages in the industry supply chain.

SOEs and private enterprises are now seeing good results in targeted poverty alleviation.


Case Study 2: Rural revitalization strategies in China - Country Garden

Country Garden Holdings Company Limited, a privately-owned property development company, is a good example of how Chinese enterprises and the market can play a vital role in poverty alleviation. Country Garden formulated a series of documents including *Country Garden’s Guidelines for Poverty Alleviation Work in Rural Areas* and has signed strategic partnership agreements with local governments to jointly promote the implementation of rural revitalization strategy projects.

- **Technological innovation for rural development**

The promotion of rural development cannot be achieved without technological innovation; however, rural areas often lack the expertise, resources and financial support needed for such innovation. Therefore, by working with enterprises, it will effectively promote the modernization of agriculture and the long-term development of rural areas. Examples include the Country Garden Intelligent Construction Industry Base in Xingguo County, Jiangxi Province, which provides employment opportunities for more than 300 poor local residents. It is estimated that the annual tax revenue of this base is about CNY 40 million. Another example is Bohanju New Building Materials Industry Base in Xinhe County, which not only brings in advanced
after years of effort and have begun to explore new modes of poverty alleviation. For example, in October 2016, the Central Enterprise Poverty Alleviation Fund was initiated by the Ministry of Finance and the State Council Leading Group Office of Poverty Alleviation and Development under the leadership of SASAC, with an initial capital contribution of CNY 12.2 billion. By February 2019, this fund and the Poverty-Stricken Area Industrial Development Fund initiated by the Ministry of Finance, China Tobacco, and State Development & Investment Corp., Ltd. (SDIC) had invested a total of CNY 15.2 billion in 103 projects. Through direct investment and the establishment of sub-funds in key provinces and poverty alleviation fund alliances, the two funds had attracted private capital of more than CNY 170 billion to poverty-stricken areas. When completed, the invested projects are

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technologies, but also creates jobs for local people to improve their livelihoods. Country Garden is also involved in planning and constructing modern agricultural industrial parks in poverty-stricken areas, guiding and supporting poor villages to establish cooperatives, with soilless farming, selenium-enriched rice projects, and mini pumpkin projects in Guangdong Yingde, Jiangxi Xingguo, Shaanxi Yaozhou and Lantian.

- **“Agriculture + Internet”: Urban and rural value co-creation**

Country Garden also harnesses digital technologies to promote growth and expand employment opportunities through e-commerce development in rural areas. By linking up with its own retail brand Phoenix Selection, Country Garden gives local farmers greater access to external markets and information services and helps them earn more through consignment sales and processing of local agricultural products. Phoenix Selection also plans to establish a distribution network among poverty-stricken areas in 14 counties in 9 provinces to help sell products and generate more employment opportunities. By the end of 2018, Phoenix Selection had set up a network in 835 of its branch stores, helping sell 955 agricultural products from poverty-stricken areas and creating employment and livelihood opportunities for 1,678 poor households.

- **A common community in support of rural revitalization**

Country Garden Group, Guoqiang Public Welfare Foundation and other entities jointly launched the “Poverty Alleviation Community” project to bring together the social resources of more than 70 enterprises, institutions, media, non-profit organizations and individuals to effectively fill the gap for poverty alleviation of poor villages and poor households.
expected to provide job opportunities for 480,000 people.¹

In 2015, the All-China Federation of Industry and Commerce launched a targeted poverty alleviation program aimed at engaging ten thousand enterprises in helping ten thousand villages.² The program developed targeted poverty alleviation modes based on industrial development, trade, e-commerce, and employment. By the end of 2018, 76,400 private enterprises had participated in the program. They together had provided CNY 71.25 billion for industrial development and CNY 12.77 billion for public welfare providing jobs for 679,700 people and skills training for 846,000 people, benefiting a poor population of more than 9.7 million.³

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**Case Study 3: Ping An village doctor program- people-oriented development**

Because of the uneven distribution of medical resources in China, many low-income families in remote impoverished areas have been reduced to poverty due to high medical expenses. Furthermore, the lack of medical resources and weak awareness of healthcare have resulted in much higher incidence of diseases. Improving the medical skills of village doctors and strengthening the medical services capacity in poor areas have been identified as key steps for alleviating poverty and achieve human development.

In January 2018, Ping An, China’s largest insurance company, launched a CNY 10 billion “village official”, “village doctor” and “village teacher” program as part of its poverty alleviation initiatives through industrial development, healthcare, and education. To address poor medical facilities, limited competencies of village doctors, and weak health awareness amongst villagers in impoverished areas, the village doctor program aims to upgrade 1,000 village clinics and train 10,000 village doctors. In particular, it is carrying out the “4 + 1” smart healthcare campaign nationwide, i.e., the “village clinic upgrade”, “village doctor training”, “assisted diagnosis”, and “health check-up” programs, and a “health management record” action. These healthcare programs are designed to improve the quality of basic medical services in poor areas.

- **Village clinics: The last mile of medical services**

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² This program aims to have more than 10,000 private enterprises paired up with more than 10,000 impoverished villages in three to five years to help them overcome poverty.

Ping An has donated all-in-one testing devices to village clinics to improve medical conditions in poor areas and provide one-stop testing services. Ping An’s Haoyisheng app (villager doctor edition), an AI-backed smart diagnosis system, can help village doctors increase the accuracy of preliminary diagnoses, and can greatly improve referral efficiency through online registration and data integration. In addition, Ping An is establishing health records for villagers through the all-in-one testing devices, and information in health records can be synchronized with the app to achieve smart health management.

- **Village doctors: Improving medical skills through training**

Ping An is creatively making use of online platforms to address the problems of limited competencies and training opportunities for village doctors. Through the Haoyisheng app (villager doctor edition), experienced doctors around the country can pair with village doctors to help them solve problems online and support them through diagnosis and treatment. Additionally, Ping An, together with local governments and the Volunteer Council of the China Medical Doctor Association, invites doctors with years of experience to provide training for village doctors on the prevention and control of endemic infectious diseases and chronic diseases and explain basic testing results to improve the professional skills of village doctors.

- **Villagers: Free health check-ups and health management backed by big data**

Ping An has purchased testing vehicles and organized experts and experienced doctors to conduct free health check-ups for people in poverty-stricken areas. The villagers’ health reports are uploaded in real time via a cloud-based data platform, where they can be interpreted online and health risk warnings can be given to villagers and health departments if necessary. In this way, this service can help villagers detect health risks for early treatment and also reduce the risk of being reduced to poverty due to illness.

By December 31, 2018, the village doctor program had upgraded 400 village clinics, provided training for 5,702 village doctors, carried out 109 health check-up sessions for 12,831 villagers, and provided free medical services for 6,440 people.
From 1994 to 2018, with rapid economic development and advances in Internet technology, China’s Internet industry was progressing in leaps and bounds. In 2008, the number of netizens in China for the first time exceeded that in the United States to rank the first in the world. In 2018, there were 3.8 billion Internet users around the world, of whom 21% were from China, 12% from India, and 8% from the United States. Chinese Internet companies have also been flourishing. Among the world’s top 30 Internet companies, 18 are based in the United States and seven in China. With the growth of Internet companies and their increasingly profound economic and social impacts, expectations from the government, society and consumers have grown.

The Internet has supported economic and social development. In July 2015, the State Council released the Guiding Opinions on Actively Promoting the “Internet Plus” Action Plan, proposing to make this initiative an important driving force for economic and social innovation and development. With the rapid development of Internet technology and industry, enterprises based on information technology have sprung up. Leveraging such technologies as the Internet, big data, cloud computing, and artificial intelligence (AI), large Internet companies have empowered the real economy, forming a number of leading industrial Internet platforms. Internet-based services such as health care, elder care, education, tourism, and social security are emerging and supporting social development. “Internet plus public service” has become an important tool for the government to promote innovation in service modes and modernize the governance system.

- **In urban areas**, the “Internet plus public service” mode has been widely applied, enabling governments at various levels to enhance their comprehensive service capabilities and improve service efficiency through technology innovation and process optimization with the help of the Internet, big data, AI and other technologies. According to statistics from the China Internet Network Information Center, by December 2018, the public service channel on the WeChat platform had served 570 million users, and 46.84 million of them paid their utility bills via this channel.

- **In rural areas**, the Internet has been expected to play an important role in

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2 According to *Internet Trends*, a report by Mary Meeker, the seven Chinese enterprises are Alibaba (ranking 6th), Tencent (7th), Meituan-Dianping (17th), JD.com (18th), Baidu (19th), NetEase (22nd), and Xiaomi (29th). Available at: https://www.bondcap.com/archive
narrowing the gap between urban and rural areas and promote rural development. By the end of 2018, China had 222 million rural Internet users, accounting for 26.7% of the total.\(^1\) According to statistics from the Ministry of Finance, online retail sales in rural areas amounted to CNY 1.37 trillion in 2018.\(^2\)

The rapid development of the Internet has generated new social issues, such as consumer privacy and protection of underage Internet users. By December 2018, the number of computer game players in China had reached 484 million, accounting for 58.4% of all netizens, and the number of mobile gamers reached 459 million.\(^3\) In recent years, online game addiction involving minors has come under fire. At the end of December 2017, the Publicity Department of the CPC Central Committee, the National Radio and Television Administration, and six other departments jointly released the *Opinions on Strengthening Supervision over the Online Game Market*, vowing to crack down on violations and inappropriate content in online games. Online game companies have also started to establish anti-addiction mechanisms.

### 3. Public participation in the green transition and improved environmental governance

Although environmental concerns persist, China has made breakthroughs in environmental protection, following the overall philosophy that “lucid waters and lush mountains are invaluable assets”. As Xi Jinping pointed out at the national conference on environmental protection, “The leaders of local Party committees and governments at all levels are the chief persons for environmental protection in their own administrative regions. The performance appraisal results will be used as an important criterion for rewards, punishments and promotion of leaders and cadres at all levels.”\(^4\) The revised Environmental Protection Law in 2015 puts forward more stringent environmental penalties on entities violating the law such as consecutive penalties that accumulate, seizure and detention, suspension and restriction of production, transfer of suspected criminal cases to judicial agencies, and allows eligible civil society organizations to initiate public interest litigations.

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1. See footnote 1
3. See footnote 1
The new law has been enforced with unprecedented impact. In 2016, there were nearly 10,000 cases of seizure and detention across the country, up 38% year on year. The number of cases where production was suspended or limited exceeded 5,000, up 83% year on year. The revised Environmental Protection Law significantly increases the cost of breaking the law for enterprises and has increased deterrence considerably.

### Table 3.1: New penalties under the Environmental Protection Law in 2015 and 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>YoY growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seizure and detention</td>
<td>4,192</td>
<td>9,976</td>
<td>138%</td>
</tr>
<tr>
<td>Cases of consecutive daily penalties</td>
<td>716</td>
<td>1,017</td>
<td>42%</td>
</tr>
<tr>
<td>Amount of consecutive daily penalties (CNY 100 million)</td>
<td>5.69</td>
<td>8.14</td>
<td>43.12%</td>
</tr>
<tr>
<td>Suspension and restriction of production</td>
<td>3,100</td>
<td>5,673</td>
<td>83%</td>
</tr>
<tr>
<td>Transfer to administrative detention</td>
<td>2,079</td>
<td>4,041</td>
<td>94.37%</td>
</tr>
<tr>
<td>Transfer from administrative to criminal jurisdictions for suspected environmental crimes</td>
<td>1,685</td>
<td>2,023</td>
<td>20.06%</td>
</tr>
</tbody>
</table>

*Source: Assessment report on the New Law of Environmental Protection, April 2017*

A noteworthy step in environmental governance at this stage is to promote public participation in addition to strengthening law enforcement. For example, the *Measures for Public Participation in Environmental Impact Assessment* issued by the Ministry of Ecology and Environment on July 16, 2018 requires that “construction units should listen to the opinions of citizens, legal persons and other organizations within the region where the environmental impact assessment is conducted according to law”. In other words, the public has the right to know, to participate, and to express opinions as part of environmental governance.

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Box 7: Publicly available environmental data in China

The enormous potential of publicly available environmental data (PAED) is being taken more seriously by policymakers worldwide. China has been experimenting with the use of PAED for almost twenty years. This process could be described as having four stages.

- **The first stage** was characterised by an absence of data. In the 1990s China started to build up a system for environmental management; however, the data was scattered across different departments and few of them were made public.

- **The second stage** was one of sharing in which the government and other bodies (including NGOs) shared some or all of the data but mostly in its raw form. In 2006, the People’s Bank of China and the State Environmental Protection Agency (SEPA) released a notice on the sharing of corporate environmental information, which saw the environmental authorities provide the bank with information on companies that had been punished for damaging public health through pollution, with plans for the data to be fed from local environmental authorities to the bank for use in overall credit ratings. The milestone was 2008 when China promulgated Measures for the Disclosure of Environmental Information, requiring that enterprises with excessive pollution discharges disclose information about environmental management and pollution discharges to the public. It is worth noting that an Environmental NGO, the Institute of Public and Environmental Affairs (IPE), developed the Public Information Transparency Index and accordingly published the pollution data of 113 cities in China in 2018.

- **The third stage** was one of structured presentation in which data was provided in a more structured and user-friendly way that was more convenient for financial bodies to use. The sharing of environmental data by the environmental authorities has played a hugely positive role. But there are also challenges. For instance, the corporate environmental information shared primarily lists companies guilty of breaches of environmental law – the data is commonly referred to as a blacklist. But the data often lacks information on the gravity of the breach and is purely negative. Problematic companies can be filtered out, but there is no way to identify the companies that are doing well. Also, the public lacks the expertise to interpret raw environmental data. To solve these issues the environmental authorities in some provinces have tried a new approach in recent years: structuring data in easily comprehensible ways. For example, in Jiangsu, a corporate environmental rating system is used, with companies rated as green, blue, yellow, red or black.

- **The fourth stage** is one in which PAED feeds back into needs of the public and the full value of environmental data is extracted. The shift from the sharing of raw data to the pres-

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entation of structured information reduces the costs for the use of PAED and so increases demand and results in much greater use. In 2016, the People’s Bank of China and six other ministries have released Guidelines for Establishing the Green Financial System, requiring the establishment of a mandatory system for all listed companies to disclose their environmental information by 2020.

### Case Study 4: Wildlife protection - Chimelong Group

China has a vast territory with a wide variety of wild animals and plants. With rapid economic and social development, however, wildlife habitats have become fragmented or destroyed, and environmental pollution has caused serious damage to these ecosystems and biodiversity. The juxtaposition between economic and social development and ecological conservation has become increasingly prominent. The *Law of the People’s Republic of China on the Protection of Wildlife (revised 2018)* sets out that the state encourages citizens, legal persons and other organizations to participate in wildlife protection in the form of donations, grants, and volunteer services, and supports the public welfare undertaking of wildlife protection.

- **Wildlife conservation foundation.** In 2017, Chimelong Group set up the Guangdong Chimelong Wildlife Conservation Foundation, a non-public foundation dedicated to animal and plant protection, the Chimelong Animal and Plant Protection Foundation of Guangdong Province. As of March 1, 2017, the Group donates CNY 1 to the Foundation for each ticket bought at Chimelong Ocean Kingdom, Chimelong Safari Park, Chimelong Birds Park, Chimelong Paradise Guangzhou, Chimelong Water Park, Chimelong International Circus, and Chimelong Hengqin International Circus City, and this policy is tentatively planned to last for three years. Since its establishment, the Foundation has actively participated in promotional activities such as the Month of Wildlife Protection in 2017, migratory bird protection, and sponsored endangered animal conservation programs including the “protecting smiling elf – Yangtze finless porpoises” program.

- **Science outreach programs.** In order to increase young people’s awareness of animal protection, Chimelong Group launched the Chimelong Zoo College program to popularize science at schools, communities and resorts and through children’s books raise awareness and engage more people in environmental and animal protection. Chimelong Group and Guangdong Chimelong Wildlife Conservation Foundation organized a promotional activity themed “Let’s Protect Tiger & Leopard” on March 1, 2018 to celebrate World Wildlife Day on March 3. Thousands of people took part in the activity, including representatives from 22 government departments such as China’s Ministry of Foreign Affairs and Ministry of Public Security, representatives from the consulates-general of the United States, France, Zim-
babwe and six other countries in Guangzhou, representatives from the World Wide Fund for Nature (WWF), WildAid and other international organizations, representatives from the China Wetland Conservation Association, SEE Foundation and other domestic organizations, as well as young volunteers and tourists.

- **Cooperation on wildlife protection.** Through its foundation, Chimelong Group has cooperated with a number of wildlife conservation organizations at home and abroad. For example, on July 19, 2017, Chimelong Group and the National Aquatic Wildlife Conservation Association of the China Wildlife Conservation Association signed a Cooperation Agreement on Aquatic Wildlife Conservation, Breeding and Science Outreach Programs, pledging to work together on the protection and breeding of rare and endemic aquatic animals in China and jointly carry out science outreach programs.

### Case Study 5: Ecotourism- Ningbo Banbiashan Resort

As a state-owned enterprise, Banbiashan has aimed to use tourism as social and economic leverage to promote the industrial upgrading of the coastal town, while at the same time protecting the local environment and supporting the local community.

- **Service sector growth promotion**

Before the Banbiashan Resort was built, the region was a fishing village, where residents’ income was mainly from fishing and remittances from family members who had migrated for work. Stuck in the preliminary stage of urbanization, income levels were generally low, mostly below CNY 3,000/month. After the development of Ningbo Banbiashan Investment Co., Ltd., the region embarked on a localized urbanization path that features ecological conservation.

The company promotes the economic development of the region with eco-tourism, and is also helping the local labour force to shift from mainly working in primary industry to tertiary industry. For more than a decade, the company has generated 53 local people with training and job opportunities, which accounted for 27% of the local population. At the same time, by providing more livelihood opportunities to local communities, it has effectively reduced social problems such as the loss of local labour and promoted local urbanization processes.
Figure 3.25: Banbianshan Resort’s impact on local livelihoods (Top 5)

- Ecotourism and environmental protection

During the tourism development planning process, attention has been paid not only to ensure that impacts on the environment are minimized, but also to transform and upgrade the local ecological environment.

Banbianshan is also harnessing green building technologies to build a low-carbon resort: in the short term, the company is building green roofs and green buildings in the resort, including “sky gardens” and green interior and exterior walls, to increase microcirculation in the area and alleviate the heat island effect.

The resort is currently applying for LEED\(^1\) Gold Certification supported by its performance in reducing energy consumption, waste etc. In addition, the hotel is raising awareness about sustainable consumption with its customers. For instance, it is committed to minimizing the use of disposable products and ensuring that various resources and energy are recycled as much as possible without sacrificing service standards through measures such as utilizing residual food scraps for anaerobic fermentation to provide biogas energy. As well, it has also increased community environmental awareness through campaigns, publicity, education and action programmes.

\(^1\) The LEED (Leadership in Energy and Environmental Design) certification program is one of the most popular green building certification programs in the world, developed by the non-profit U.S. Green Building Council (USGBC). It includes a set of rating systems for the design, construction, operation, and maintenance of buildings that aims to minimize the negative environmental impacts and maximize energy and resources efficiency.
Another example of public participation is the booming field of green finance.\textsuperscript{1} Green finance can exert influence over enterprises directly or indirectly by means of financing cost and risk management costs, and to some extent, reduce the financing costs for green enterprises while raising the financing costs for polluting enterprises, thus driving them to accelerate going green. In September 2015, the central government released the *Overall Plan for the Reform of the Eco-civilization System*, proposing to “establish a green financial system”. In August 2016, the People’s Bank of China and six other ministries and commissions jointly issued the Guidelines on Building the Green Financial System, which constitutes the basic framework of green finance. Since then, the development of green finance has gained speed. Currently, the outstanding green credit of the 21 major banking and financial institutions in China reached nearly CNY 9 trillion in 2018,\textsuperscript{2} and outstanding green bonds amounted to over CNY 500 billion in 2018, accounting for around 16% of global green bond issuance.\textsuperscript{3}

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1. Green finance refers to all financing activities in which financial institutions incorporate environmental assessments into their credit evaluation processes. The evaluation process also focuses on the protection of the ecological environment and on the development of green industries.


Chapter 4
The main stakeholders in the business ecosystem

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akeholders shape and participate in the business ecosystem, determine the social environment of enterprise operations, and respond differently to the social and environmental impacts of enterprises based on varying needs at different stages of social development. During the 40 years of Reform and Opening Up, stakeholders have evolved in their composition, structure, and their demands for enterprises. Generally, they are now more diversified than 40 years ago, and their focus has gradually broadened to include the social and environmental impacts of enterprises across the board. The mode of interactions between stakeholders and enterprises has also shifted from monitoring to exerting pressure to cooperate in tackling social problems. Over the past 40 years of Reform and Opening Up, the stakeholders who have exerted an important impact on enterprises’ behaviour and management concepts can be divided into four categories: government departments, international organizations, industry organizations, and CSOs.

I. The government

1. Building independent market entities

The government has played and continue to play a leading role in shaping and regulating the business ecosystem. However, the relationship between government and enterprises has changed significantly in the last 40 years.
Before 1978, there was no such concept as an “enterprise” in China. In the planned economy, the production units set their decisions on raw materials, employees, production plans and sales completely based on the requirements of the government. After 1978, these entities gradually became independent market entities, enterprises, that assumed sole responsibility for their profits or losses. The role of the government gradually transformed from administrating enterprises to guiding and supporting their development by formulating policies, and shaping a business ecosystem in line with national priorities and social development. In October 1984, the third plenary session of the 12th CPC Central Committee adopted the *Decision on the Reform of the Economic Structure*, aimed at separating the ownership from the management of SOEs. It also established that enterprises should be granted autonomy in various areas, becoming relatively independent economic entities, and should take full responsibility for their profits or losses as legal entities with certain rights and obligations.¹

With time, further progress was made in legislation regarding companies. In 1994, the Company Law was adopted at the fifth session of the Standing Committee of the Eighth National People’s Congress, stipulating that “limited liability companies and joint stock limited companies are enterprise legal persons” and that they shall operate according to law and assume sole responsibility for their profits or losses.²

Enterprise legal persons became independent entities in a market economy in line with reform policy and law, differently from the earlier period when the functions of the government and enterprises were not separated, and enterprises could not make their own decisions on business operations. Therefore, a new type of relationship between enterprises and the government has taken shape.

The laws and regulations relating to enterprise behaviour cover a wide range of aspects, including the protection of labour rights and interests (the *Labour Law* enacted in 1994, the *Trade Union Law* in 1992, the *Law on Prevention and Control of Occupational Disease* and the *Production Safety Law* in 2002, and the *Labour Contract Law* in 2008), the protection of consumer rights and interests (the *Law on Protecting Consumers’ Rights and Interests* enacted in January 1994 and amended in 2013), environmental protection (hundreds of laws and regulations centred on the *Environmental Protection Law* promulgated in 1989), and charity (the *Law on Donations for Public Welfare* in 1999 and the *Charity Law* in 2016).

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² China, Company Law (Revised in 2018), Article 3, Clause.
2. Promoting CSR and sustainable development

Into the second decade of Reform and Opening Up, the Chinese government began to leverage policy measures to encourage enterprises to address their social and environmental impacts while strengthening regulation and supervision. Especially since 2006, the government has become the main force in promoting CSR and sustainable development.

2.1 CSR and sustainable development at the legal and policy level

Before 2006, laws, regulations and policies were mostly designed to establish basic rules for enterprises’ production and operations. Although laws concerning environmental protection, consumers and workers had been promulgated, sustainable development or CSR had not been adopted into legal principles or regulatory themes.

The Amendment to the Company Law effective from January 1, 2006 explicitly required companies to assume social responsibility, not only a compulsory requirement for enterprises but a fundamental tool for the government to guide enterprises to fulfil their social responsibilities. With general consensus about the importance of CSR, the relevant ministries, central commissions and local governments have laid out special laws, regulations and rules to guide and monitor the CSR performance of enterprises.

i. SASAC

In 2008, SASAC issued the Guidelines on the Implementation of Social Responsibility by Central Enterprises. Since then, it has carried out theoretical research, formulated policies and development strategies, launched campaigns for better management and information disclosure, and engaged in international cooperation and exchanges to create an enabling environment for central enterprises to fulfil their social responsibility obligations. Over the past ten years, “central enterprises have made great strides in CSR management and performance, becoming an example for other Chinese companies.”

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1 Economic Information Daily, “Central SOEs' corporate social responsibility management and practices”, 1 February 2018. Available at: http://www.sasac.gov.cn/n2588025/n2588134/c8549345/content.html
Figure 4.1: SASAC roadmap for promoting CSR among central enterprises

ii. Ministry of Commerce

The Ministry of Commerce was one of the earliest ministries in China to promote CSR and introduce relevant policies. In 2008, it issued the *Guiding Opinions on Social Responsibility of Foreign-funded Enterprises*, with a view to guiding foreign-funded enterprises in China to fulfil their social responsibility including such aspects as the protection of rights and interests, corporate integrity, environmental protection, and social harmony. In recent years, the Ministry of Commerce, along with other departments, has rolled out policies and documents for Chinese enterprises operating overseas, which cover such topics as environmental protection, employee management, and cultural construction. In coordination with the Belt and Road Initiative, it has guided Chinese enterprises to conform to the laws and regulations of the investment destination countries, respect local customs, and align their social responsibility efforts with the *Measures for the Administration of Overseas Investment of Enterprises*.

iii. Ministry of Ecology and Environment (formerly Ministry of Environmental Protection)

In 2008, the Ministry of Ecology and Environment issued the *Measures for the Disclosure of Environmental Information* (for Trial Implementation), with the aim of making it mandatory for enterprises to disclose environmental information, protecting the rights of citizens, legal persons and other organizations to access environmental information, and promoting public participation in environmental protection. In 2010, it released the *Guidelines on Environmental Information Disclosure of Listed Companies* to guide them to strengthen environmental information disclosure. It has also formulated a series of policies and regulations requiring enterprises to strictly abide by laws, regulate business practices, conserve resources, and protect the environment.

iv. Other ministries and central commissions

In 2012, the Certification and Accreditation Administration of the People’s Republic of China issued the *Guidelines on Corporate Social Responsibility of Certification Agencies*, which created institutional arrangements for the establishment and improvement of the CSR management system of certification agencies and encouraged them to release CSR information publicly as of 2012. The Standardization Administration of the People’s Republic of China has been dedicated to promoting the standardization of CSR. In 2015, it issued a series of CSR-related national standards, including the *Guidance on Social Responsibility*.

The National Development and Reform Commission (NDRC) issued a series of national standards on social responsibility, including the Guidelines on Corporate Social Responsi-
NDRC has encouraged enterprises to pursue green development and has taken active measures to promote energy conservation and emissions reduction and improve the sustainable development of enterprises.

The China Banking Regulatory Commission and China Insurance Regulatory Commission have also issued policies to regulate and guide CSR management in the banking and insurance sectors, and to promote the development of green finance.

The Ministry of Science and Technology has advanced the construction of experimental and demonstration zones for sustainable development. In 2017, it issued the *Guide on the Application for Innovation Demonstration Zone for the National Sustainable Development Agenda*, and signed the Memorandum of Understanding on Promoting Sustainable Development Goals through Scientific and Technological Innovation with the United Nations (UN) to share experience in the development of innovation demonstration zones and enhance the ability to pursue sustainable development through science and technology.

**v. Local governments**

Under the guidance of the State Council and central government agencies, local governments have also developed policies, guidelines, standards and evaluation methods to encourage enterprises in their region to fulfil social responsibility measures and to enhance regional competitiveness in CSR. According to statistics, since the Changzhou Federation of Trade Unions released the *CSR Standard of Changzhou* jointly with other departments in 2004, at least 14 local governments at all levels have issued 46 policy documents promoting CSR in their respective regions, including the *Opinions on Further Promoting the Implementation of CSR* issued by the municipal government of Shenzhen in 2007, the *Guidelines on CSR in Pudong New Area* jointly released by various departments of the Pudong New Area local government, and the *Opinions on the Implementation of the CSR Assessment System of Yantai Economic and Technological Development Area* in 2008.

**2.2 Political advocacy of CSR and sustainable development**

Concurrent with improving legislation, the central government has called for sustainable development and promoted CSR in policy documents on various occasions since the early 1990s.

After the UN Conference on Environment and Development in 1992, the Chinese government submitted the *Report of the People’s Republic of China on Environment and Development*, which systematically reviewed the process and described the status of the environ-
ment and development in China, and elaborated on the basic standpoint and views of China on sustainable development. In 2003, the government put forward the “Scientific Outlook on Development” concept, advocating people-oriented, comprehensive, coordinated, and sustainable development, and emphasizing that enterprises should pay attention to human and environmental values during production and operations, in line with the goals of CSR.

In 2006, the sixth plenary session of the 16th CPC Central Committee adopted the Decision on Several Major Issues Concerning the Building of a Socialist Harmonious Society, undertaking to enhance the social responsibility of citizens and all kinds of organizations including enterprises and engage them in the building of a harmonious society. As well, the heads of state and government expressed high expectations for CSR on various occasions. In November 2008, then Chinese President Hu Jintao pointed out in his speech at the Asian Pacific Economic Cooperation (APEC) CEO Summit that “enterprises exist and operate in society and must take into account the social benefits and social impact of their behaviour.” He urged enterprises to develop a sense of responsibility and consciously include CSR in their business strategies, calling for governments around the world to strengthen guidance and supervision and to create an enabling environment for enterprises to fulfil their social responsibilities.¹

In the new era, China’s advocacy of CSR and sustainable development has also reached a new level. The Central Economic Work Conference in 2012 proposed to strengthen CSR in large enterprises. At the third plenary session of the 18th CPC Central Committee in 2013, “fulfilling social responsibility” was included in the six key tasks of deepening SOE reform. The Decision on Major Issues Pertaining to Comprehensively Promoting the Rule of Law adopted at the fourth plenary session of the 18th CPC Central Committee in 2014 promised to strengthen CSR legislation. The 19th CPC National Congress in 2017 reiterated the strategy of sustainable development, stating that “We must inspire creativity and vitality throughout society, and strive to achieve better quality, more efficient, fairer, and more sustainable development.”

The leadership has also laid out expectations for CSR and sustainable development. In March 2013, Chinese President Xi Jinping when meeting the leaders of African countries in South Africa pledged that China will continue requiring Chinese enterprises operating in Africa to actively engage in social responsibility. In April 2016, he stated at the symposi-

um on the work of cybersecurity and informatization that “with the growth of enterprises comes greater social responsibility and moral responsibility…Only assets filled with compassion and caring are true assets, and only enterprises that actively fulfil social responsibility are the most competitive and dynamic.” In October 2018, he pointed out at the seminar marking the five-year anniversary of the Belt and Road Initiative that in the process of implementing the Belt and Road Initiative enterprises should operate according to law, attach high importance to environmental protection, and fulfil social responsibility.

2.3 Bilateral and multilateral cooperation on CSR and sustainable development

In September 2010, China voted in favour of the ISO 26000 for Corporate Social Responsibility standard. In June 2011, China, along with other countries, witnessed the endorsement of the Guiding Principles on Business and Human Rights by the UN Human Rights Council. In addition, apart from the historic contributions to the adoption of the Paris Agreement, China also voted for the UN 2030 Agenda for Sustainable Development in 2015. Since then, China has not only played an active role in many other major international CSR and sustainable development agendas, but also contributed to a number of resolutions and documents of the UN through bringing up the proposal of “building a community with a shared future”, enriching the guiding principles of the international sustainable development agenda.

Table 4.1: The 2030 Agenda for Sustainable Development in China: Key events

<table>
<thead>
<tr>
<th>The 2030 Agenda for Sustainable Development in China: Key events</th>
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</thead>
<tbody>
<tr>
<td>April 2016</td>
</tr>
<tr>
<td>July 2016</td>
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<td>September 2016</td>
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<tr>
<td>September 2016</td>
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<td>December 2016</td>
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</table>
CSR has also been an important topic in bilateral cooperation between China and other countries, especially Germany, Sweden, and the Netherlands.

- **Sino-German Corporate Social Responsibility Project**: The Sino-German CSR Project was launched in 2007. By carrying out CSR-related research and supporting government departments in improving CSR policies, this project put forward 24 policy recommendations to 15 departments of the central and local governments within seven years. It also assisted the China International Contractors Association (CHINCA) and China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters (CCCMC) in drawing up industry-specific CSR guidelines, and held 182 international symposiums and forums on various CSR topics.

- **Sino-Swedish Corporate Social Responsibility Cooperation Project**: Launched in June 2007, this is the longest-running intergovernmental CSR cooperation project in China. Over the past 11 years, it has organized 18 sessions of CSR training workshops. Its official website (www.csr.gov.cn) is the only governmental website in the field of CSR in China, with total visits exceeding 15 million. It has organized two Chinese CSR tours to Sweden, organized a variety of exchange activities including the Sino-Swedish Corporate Social Responsibility Forum, and provided support for research on national CSR competitiveness and on CSR practices of Swedish enterprises in China.

- **Sino-Dutch Corporate Social Responsibility Project**: This bilateral cooperation project was funded by the Embassy of the Kingdom of the Netherlands and carried out by the State Information Center of China under the leadership of China’s Ministry of Commerce. During the project period from May 2008 to December 2014, it organized related training programs and seminars, and built a CSR monitoring and evaluation system and various communication platforms for stakeholders.
II. The United Nations (UN) and other international organizations

After the launch of the Reform and Opening Up, a variety of international organizations came to China and supported the economic and social development of the country with their expertise and resources. As the social and environmental impacts of enterprises became increasingly complex and sustainable development became a global consensus, international organizations operating in China have adjusted their operations and development strategies accordingly. Especially since China's accession to the WTO, in-depth cooperation with international organizations has provided valuable international resources and experience for China's progress in CSR and sustainable development.

International organizations that promote CSR and sustainable development in China include both global and regional intergovernmental international organizations, and international non-intergovernmental specialized agencies for CSR. The former category mainly consists of the specialized agencies and international development organizations of the UN, such as the United Nations Development Programme (UNDP), the United Nations Environmental Programme (UNEP), the United Nations Children's Fund (UNICEF) and UN Women, as well as the International Labour Organization (ILO), the Organization for Economic Cooperation and Development (OECD), the World Bank, the Asian Development Bank, and the Global Environment Facility (GEF). The latter category includes CSR Europe, Amfori, the Global Reporting Initiative (GRI), and the International Business Leaders Forum (IBLF), as well as the CSR or sustainable development departments of some foreign business associations.

1. From economic assistance to sustainable development

At the early stage of Reform and Opening Up, to meet the huge demand for funds and talents to support China’s economic development, some international organizations provided China with economic assistance such as grants and loans, and mainly extended financial support to cooperation projects.

The World Bank, for example, is the largest source of capital and knowledge for developing countries in the world, and the World Bank Group is committed to promoting common prosperity and sustainable development. In the early 1980s and 1990s, the primary goal of the World Bank’s assistance strategy was to drive economic restructuring. Since the mid-1990s, the World Bank has gradually shifted the focus of its operations in China to sustainable development and emphasized poverty alleviation and environmental protection strategies, such as controlling air pollution, improving the business environment for the transition to a market economy, advancing environmental sustainability, and promoting
the green economy. As of August 2018, the World Bank had funded 567 projects in China, of which 168, or 29.6%, were related to sustainable development such as the environment, climate change, and water resources.

In addition to financial support, international organizations also provided solutions for China’s Reform, Opening Up and sustainable development by leveraging their global perspective, experience, and talents. For example, in 1979, UNDP approved the first aid program. As a global UN agency working in all areas of development, UNDP has, capitalizing on its global development experience, helped China find solutions to development challenges, supported China’s participation in South-South cooperation and global development, and provided funds, technology and talents in areas such as poverty reduction, good governance, crisis prevention and response, energy, and the environment.

Another example is the OECD that supported the China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters (CCCMe) and its international partners in initiating responsible cobalt industry initiatives and engaging upstream and downstream enterprises and stakeholders to build a responsible and sustainable cobalt supply chain.
2. International concepts and practical experiences

International organizations play a pivotal role in introducing and localizing advanced international concepts in CSR and sustainable development. For example, CSR Europe, the leading European business network for CSR, has co-sponsored the annual International CSR Forum with China WTO Tribune since 2005. The forum disseminates CSR concepts to thousands of Chinese enterprises and brings them up to date with global trends. Since 2015, UN Women has hosted the International Conference on Gender Equality and CSR in Beijing, Hangzhou and other places, which has systematically introduced to Chinese stakeholders concepts and international practices such as gender equality, CSR, and the integration of gender issues into corporate governance and management.

Through forums, inspections and network platforms, international organizations have introduced the good practices of foreign companies to the Chinese government, industry associations, enterprises, and consumers, inspiring some Chinese enterprises to take the initiative to fulfil their social responsibilities thus driving their sustainable development. For example, the European Union Chamber of Commerce of China, the American Chamber of Commerce in Shanghai and other foreign chambers of commerce have established CSR forums to promote exchanges and communication among member enterprises on CSR concepts and practices. The UN Global Compact and the Global Compact Network China collect good practices of Chinese enterprises in line with its ten principles every year to promote China’s achievements in sustainable development.

3. Multilateral cooperation on capacity building

Relying on their expertise and global networks, international organizations have established local cooperation networks to provide training and technical guidance for Chinese industries, enterprises and other stakeholders to tap into their CSR potential and sustainable development capacity. For example, the United Nations Industrial Development Organization (UNIDO) focuses on strengthening the capacity of institutions and the government and creating an enabling environment for small and medium-sized enterprises (SMEs) to adopt responsible business practices. In cooperation with the China National Textile and Apparel Council (CNTAC), UNIDO has since 2006 provided comprehensive CSR training, consulting and information service capacity building services for enterprises that have voluntarily implemented labour and environmental upgrading plans. The ILO introduced the Sustaining Competitive and Responsible Enterprises (SCORE) program to China in 2008, which aims to improve the workplace practices of participating enterprises through training and on-site consulting services to boost their competitiveness in sustainable development. As of the end of 2018, Global Compact Network China had provided training on how
to implement the ten principles of the Global Compact for thousands of enterprises.

III. Industry groups

Since 1978, government and market forces have driven the development of industry groups (associations/chambers of commerce) in China. Earlier industry groups were established as a result of government reform for the purpose of strengthening industry management, such as the China Enterprise Confederation and the China Quality Management Association founded in 1979 and the China Packaging Technology Association in 1980. With the development of the market economy and the acceleration of economic globalization, demand from the market and enterprises gradually became the main force driving the development of industry groups. After the market-oriented goal of economic reform was set in the 1990s, trade associations entered a period of rapid development. Since China’s accession to the WTO, industry groups have played an increasingly important role in helping transform government functions, promoting the global operations of the industry, and resolving trade disputes. At the same time, they have ramped up efforts in developing industry norms and guiding enterprise behaviour and becoming an important force in driving the transformation of China’s business ecosystem. Especially since 2005, some national and local industry groups have made major contributions to promoting CSR in their respective industries.

1. Regulating industry development

Industry groups have assumed responsibility for regulating industry development. Since the 1990s, China has introduced policies intended to develop intermediaries such as trade associations, chambers of commerce and other organizations, and gradually transfer the functions that should not be exercised by the government to enterprises, the market, or intermediaries. The fourth plenary session of the 16th CPC Central Committee in 2004 specified the role of industry groups, promising to give full play to the role of associations, industry groups, and social intermediaries in providing services, making demands, and regulating behaviour so as to form synergy between public administration and public services.  

CSR has become an important driving force in the healthy development of industries. In the process of regulating industry development, industry groups have established industry-specific social responsibility systems through such measures as promoting CSR concepts,
setting CSR standards and guidelines, advancing CSR communication and collaboration along the supply chain, and strengthening CSR information disclosure and performance evaluation, thus supporting enterprises to fulfill their social responsibility obligations. For example, the China Textile Industry Association, China Banking Association, and China Federation Industrial Economics successively released CSR systems or guidelines to encourage enterprises in their industry to publish CSR reports.

Moreover, collective CSR action is becoming more prominent. With the deepening of Reform and Opening Up, international CSR rules have provided an impetus to and placed pressure on Chinese enterprises that have just integrated into the global supply chain, resulting in a growing demand among enterprises for CSR-related public services and supportive frameworks. Therefore, it is necessary to take collective action at the industry level, ranging from inspiring CSR consensus and concerted action to conducting international dialogues and consultation on CSR issues. For example, the CSR working mechanism for China’s textile and apparel industry established by the China National Textile And Apparel Council (CNTAC) is based on a joint initiative of more than 100 textile enterprises in the process of “gradually integrating China’s textile industry into the global industry chain and supply chain”, so as to cater for the actual needs of global retailers and brands and address various problems in supplier and manufacturer audit or certification processes such as poor channel management, repeated certification, high costs, and management challenges.¹

2. Setting industry-specific CSR standards

The CSR work of industry groups is, first and foremost, reflected in the establishment of industry-specific CSR standards, which are mainly CSR guidelines and management systems or rules to provide guidance and reference on CSR performance for enterprises in the industry. According to incomplete statistics, since 2006, more than 40 industry groups have released industry-specific CSR standards, guidelines or rules.

CSR standards originated from export-oriented industries and after about a decade, have extended to industries focusing on the domestic market as well as in the field of overseas investment.

In May 2005, the then China Textile Industry Association (now the China National Textile and Apparel Council) established the Responsible Supply Chain Association, which is the first national permanent institution for CSR in China. In the same year, the CSC9000T (China

Social Compliance 9000 for the Textile and Apparel Industry) management system was issued, the first of its kind in China.

In April 2008, the China Federation of Industrial Economics, jointly with 10 national industrial associations (federations), released the *Guide on Social Responsibility for Industrial Enterprises and Associations in China* (GSRI-CH) to promote social responsibilities amongst industrial enterprises and associations to fulfil social responsibility, extending CSR concepts and working mechanisms to the industrial sector.

In November 2010, the China International Contractors Association (CHINCA) released the *Guide on Social Responsibility for Chinese International Contractors*, the first voluntary CSR standard for Chinese enterprises operating overseas aimed at guiding Chinese contractors to operate in a more responsible way. In 2014, the China Chamber of Commerce of Metals Minerals & Chemicals Importers & Exporters (CCCMC) issued the *Guidelines for Social Responsibility in Outbound Mining Investments*, which provides systematic guidance on overseas investment for Chinese mining enterprises.

### 3. Systematically supporting CSR practices

In addition to setting CSR standards and developing guidelines for enterprises in industry, some industry groups regulate, guide and oversee the CSR performance of enterprises by enhancing their capacity, advancing management systems, conducting CSR assessments, promoting best practices, building communication platforms, strengthening information disclosure, and so forth. They encourage enterprises to engage in CSR and explore CSR management and practice paradigms according to their own conditions and the characteristics of the industry.

#### (1) Capacity building

Since 2008, the China International Contractors Association (CHINCA) has invited CSR experts to provide training for enterprises in the industry every year, and it established a CSR and sustainable development workshop in 2011. Since 2007, the China National Textile and Apparel Council (CNTAC) has partnered with the Business Social Compliance Initiative (BSCI) to provide basic and special training on CSR for Chinese suppliers, which has covered more than 10,000 managers in export-oriented enterprises in the industry.

#### (2) CSR evaluation

Since 2009, CHINCA has carried out five CSR evaluations on Chinese contractors, covering more than 100 member enterprises by 2018. The China Federation of Industrial Economics
launched a CSR rating system for Chinese industrial enterprises in 2014 and released the Chinese Industrial Corporations Sustainability Transition Assessment and Rating System (CIC-STARS) in 2016.

(3) Best practices

In 2007, the China Association of Enterprises with Foreign Investment held a Multinational Companies CSR Summit and Outstanding CSR Practices Exhibition, demonstrating good CSR practices of dozens of foreign-funded companies in China. From 2014 to 2017, the association held activities to solicit best CSR practices among foreign-funded companies and recognized the winners. Since 2009, CHINCA has compiled the Selected Cases of Social Responsibility for Chinese International Contractors every two years.

(4) Communication platforms

CCCMC has held an annual CSR forum since 2005, which has become an important platform for CSR exchanges in the textile and apparel industry. The Chinese Electronics Standardization Association (CESA), the China Association of Communication Enterprises, the China Association of Enterprises with Foreign Investment, and the Internet Society of China have also organized industry-specific CSR forums, winning wide recognition from the government, enterprises, and all sectors of society. CCCMC and the CSR Committee of CESA also cooperate with relevant international organizations to promote mutual recognition of Chinese and overseas CSR standards.

(5) Information disclosure

In 2008, the then China Textile Industry Association released the China Sustainability Reporting – Guidelines for Apparel & Textile Enterprises (CSR-GATEs), the first industry-specific CSR reporting guide in China. It also launched the online reporting preparation and publishing platform in 2014. The China Federation of Industrial Economics has organized the CSR Report Launch Event for Chinese Industrial Enterprises every year since 2009, with a view to providing a CSR demonstration and exchange platform for industrial enterprises in China. By 2018, nearly 730 central enterprises, local SOEs, foreign-funded companies, and private enterprises had released their CSR reports at this event.

IV. Civil society organizations, media and academic institutions

With the reform of the economic system and the implementation of the Opening Up policy, the government no longer monopolizes governance. The public now participates in social governance through civil society organizations (CSOs), providing impetus for their devel-
opment. In the 21st century, with economic and social development and driven by major social incidents, CSOs have developed rapidly. In 2008, non-governmental public welfare organizations played an active role in coping with snowstorms in southern China and the devastating earthquake in Wenchuan on May 12. Therefore, the year 2008 is considered the beginning of non-governmental public welfare activities in China. Since then, non-governmental public welfare organizations have become more specialized.

According to the data from the public service platform of the National Administration of Civil Society Organisations, the Ministry of Civil Affairs of China, as of November 21, 2019, there were 849,795 CSOs across the country, of which 2,298 were registered at the Ministry of Civil Affairs.¹

Organizations such as CSOs, the media, and academic institutions have increasingly connected with enterprises, and worked together from different perspectives to address social issues and promote the development of the business ecosystem.

1. CSOs as a driving force in sustainable development

The mission and characteristics of CSOs determine their role as defenders of the public interest. Therefore, they pay particular attention to enterprises’ behaviour in such fields as environmental protection, labour protection, and consumer protection.

(1) Environmental protection

By the end of 2015, there were 7,433 environmental CSOs and private entities in China.² The activities of non-governmental environmental organizations have gradually extended from advocating environmental protection and protecting specific species to advising on environmental protection, carrying out monitoring activities, and engaging the public in environmental protection. The Institute of Public and Environmental Affairs (IPE) is a typical non-governmental organization that aims to promote better environmental performance among enterprises. Since it was established in June 2006, the IPE has been dedicated to collecting, sorting, and analysing environmental information disclosed by the government and enterprises. Through its information disclosure platform, it gives the public access to the pollution data of enterprises, compelling enterprises to improve their environmental performance.

(2) Protection of labour rights and interests

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¹ Data Source: Real-time statistics on the public service platform of the National Bureau of Civil Organization Administration.

NGOs for labour rights protection encourage enterprises to fulfill their social responsibility by monitoring violations and providing legal aid for workers. They supervise the employment practices of enterprises, expose illegal activities, and leverage public opinion to lobby enterprises to improve working conditions. As well, they provide legal aid and training for workers to increase their awareness and improve their ability to protect their own rights and interests.

(3) Protection of consumer rights and interests

Consumer organizations are CSOs that seek to protect the legitimate rights and interests of consumers through the monitoring of commodities and services. By 2016, there were more than 3,000\(^1\) consumer organizations at the county level or above. Consumer organizations play an important role in supervising product quality and marketing channels, protecting the rights and interests of consumers, and resolving relevant disputes, as well as urging enterprises to better fulfill their responsibilities to consumers.

In addition to monitoring the CSR performance of enterprises, CSOs have also cooperated with enterprises to jointly address social problems. The traditional way that CSOs and enterprises have cooperated is that CSOs raise funds from enterprises for their projects and enterprises sponsor projects. In recent years, amid growing calls for multilateral cooperation to address the challenges to sustainable development, this cooperation mode has changed as enterprises and CSOs take diverse approaches to achieving common goals. As a result, more and more enterprises have set up their own foundations.

With the development of China’s economy and society, especially the implementation of the Regulations on the Management of Foundations from 2004, the total number of foundations has been on the rise. By September 6, 2018, there were a total of 6,826 foundations across the country.\(^2\) Currently, China’s foundations have already supported charitable projects in all of the Sustainable Development Goal areas. Among the SDGs, addressing SDG 4 (Quality Education), SDG 1 (No Poverty), SDG 11 (Sustainable Cities and Communities), SDG 10 (Reduced Inequality), and SDG 3 (Good Health and Well-Being) involve the largest number of foundations, altogether accounting for more than 60%. More than 80% of the foundations’ work coincides with the SDGs.\(^3\) The foundation projects provide a good platform for enterprises to carry out CSR projects and participate in sustainable development.

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2 China Foundation Center Online Database, “Foundation amount in China”. Available at: http://data.foundationcenter.org.cn
Into the 21st century, Internet technology has not only brought about changes to traditional industries but also had a profound impact on CSO operations, deepening the partnership between CSOs and enterprises. With the help of online platforms, CSOs can raise funds, recruit volunteers, engage the public, and get connected with more enterprises. This not only underpins the development of CSOs but also transforms the way enterprises fulfill their social responsibility obligations. For example, leveraging the use of mobile Internet, social networks, and other innovative methods, the annual “99 Public Welfare Day”, launched jointly by Tencent Charitable Foundation and hundreds of public welfare organizations in China, has promoted the concept of sustainable development to the public.

In addition, CSOs serve as an important bridge between enterprises and other stakeholders promoting their contribution to community development.

2. The role of the media in cultivating social awareness

In modern society, the media, as a “social instrument”, is an important force in promoting social governance and social progress. In China, CSR and civic awareness have basically developed in sync. Therefore, the role of the media in promoting CSR concepts has been especially important. On the one hand, media reports reflect the changes in time; on the other hand, public opinion can strengthen ethics, and lead to social changes and progress. Into the 21st century, with the development of the Internet and mobile Internet, new me-
dia has had profound impacts on all fields including politics, economy, society, culture, and education.

(1) Overseeing and reporting irresponsible corporate behaviour

Since the beginning of the Reform and Opening Up period, the media, as a watchdog of corporate behaviour, has published numerous reports on the production and sale of counterfeit and inferior products, drawing public attention to such products, prompting government departments to intensify penalties to regulate the behaviour of enterprises. For example, the CCTV Finance and Economics Channel has aired the “315 Gala” program on World Consumer Rights Day every year since 1991.

(2) Promoting CSR concepts and practices

Online media and new media are becoming strong force driving enterprises to fulfil social responsibility obligations. Websites such as CSR-China (www.csr-china.net), the China CSR Map initiative (www.chinacsrmap.org), and the website of the Sino-Swedish Corporate Social Responsibility Cooperation Project (www.csr.gov.cn) have an abundance of CSR content, including concepts and trends, relevant laws and regulations, CSR practices, and related organizations. A host of WeChat official accounts dedicated to CSR have also been established by specialized CSR agencies and experts.

(3). CSR and sustainable development research and talent training

Research institutes and higher education institutions have the responsibility for theoretical and applied research and talent cultivation in the field of CSR and play an important role in shaping public issues and public concepts.

In the face of the environmental challenges and social problems that have arisen in the process of the rapid development of global CSR initiatives and the rapid economic development of China, CSR has gradually attracted interest from more Chinese academic institutions and scholars. In the 1990s, few papers and books on CSR were published. Into the 21st century, studies on CSR have abounded. Document retrieval using the keyword “Corporate Social Responsibility” in the Chinese Social Sciences Citation Index database shows that there have been 1,826 papers published between 1998 and 2018, covering 20 fields including management, economics, law, philosophy, sociology, journalism and communication, politics, and environmental science.
Table 4.2: Stages of CSR research, 1998-2008

<table>
<thead>
<tr>
<th>Stage</th>
<th>Period</th>
<th>Key research areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary stage</td>
<td>1998-2003</td>
<td>Focusing on whether enterprises should undertake social responsibility and what responsibilities they have from the perspectives of the nature of enterprises, enterprise-market relations, etc.</td>
</tr>
<tr>
<td>Fast development</td>
<td>2004-2009</td>
<td>Focusing on the social functions of enterprises and how CSR can promote sustainable development from the perspectives of Chinese enterprises’ participation in the international market, the Scientific Outlook on Development, and the building of a harmonious society; the key issues include environmental protection, labour relations, corporate culture, and enterprises’ competitive edge</td>
</tr>
<tr>
<td>Stable development</td>
<td>2010-2015</td>
<td>Theoretical research on stakeholders, CSR information disclosure, corporate financial performance, corporate governance, etc.</td>
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</table>
Diverse issues | 2016-2018
---|---
Focusing on a wide range of research topics, of which those related to stakeholders include partners (e.g. shareholders, financers, employees, consumers, and suppliers), external environment (e.g. the government, community, media, and environmental organizations), and indirectly affected aspects (e.g. natural environment and biodiversity)

Note: This table is based on Bibliometric Analysis of Corporate Social Responsibility Research in China, 1998-2018 (Guo & Ye, 2019).

Academic institutions also groom talents for enterprises and the society. In 2004, the Law School of Peking University launched a course called “Business and Human Rights”, the first specialized course of its kind certified by the Ministry of Education. After that, business schools in China began to incorporate CSR into business ethics education. In recent years, business schools have actively introduced and promoted CSR in their programs and in particular, offered business ethics courses in Master of Business Administration (MBA) education. In 2009, the China National MBA Education Supervisory Committee revised the requirements for MBAs, now requiring business schools to include CSR and business ethics in MBA programs. Since 2010, the Guanghua School of Management of Peking University has hosted the annual China CSR Education Symposium, which has become a landmark event for business schools to advance CSR education.
Chapter 5
Over the past 40 years of Reform and Opening Up, Chinese policymakers have continuously transformed the business ecosystem through policy adjustments, allowing enterprises to tap into their potential, with profound and far-reaching impacts on social development and the environment. With time, various stakeholders have confronted enterprises and their modus operandi for the sake of their own interests or the public interest, encouraging them to be more responsible and pursue sustainable development, shaping a business ecosystem based on common interests and shared social values. Overall, national conditions promoted mutual advances in policy, productivity, and society over the past 40 years, proving it a successful model for China.

Looking to the future, the sustainable development of the business ecosystem and society is of great significance not only to China but also at the global level, in light of the rising international influence of Chinese enterprises and society. In view of this, to continue to advance a benign business ecosystem and social development, the following three aspects should be considered.

I. Policy to drive high-quality business ecosystem development

First, policy has to continue to play a decisive role in promoting the sustainable develop-
opment of the business ecosystem. This means that the Chinese government must provide policy support for enterprises to further unleash their productive forces and economic potential in a socially and environmentally sustainable way. Specific policies may include reducing the tax burden of enterprises, alleviating the difficulties faced by enterprises in accessing affordable financing, creating an environment that advocates fair play, improving policy implementation, building a new relationship between government and enterprises based on the concept of sustainability, and protecting the personal and property rights of entrepreneurs.

For foreign-funded enterprise policies, the Foreign Investment Law adopted in 2019 to be put into force in 2020 focuses on measures for creating a fairer and more open Chinese business ecosystem for foreign investments. For example, the Law legislates on increasing the transparency of foreign investment policies, ensuring equal participation and fair competition of foreign-funded enterprises in the Chinese market (national treatment), promoting high-level investment liberalization and facilitation, and strengthening the protection of property rights.

For SOEs, the government has focused on measures such as removing institutional and organizational barriers, improving the modern enterprise system, and increasing SOEs’ human capital development. At the same time, the ongoing mixed ownership reform should be advanced to strengthen the performance, global footprint, and risk tolerance of SOEs. These policies aim to create a more open, inclusive, fair, and dynamic business ecosystem, which will give impetus to the sustainable development of the economy. Effective implementation will be key in assessing the success of such reforms.

Second, the government needs to emphasise policy mechanisms in favour of responsible corporate behaviour and sustainable development. This means that while further stimulating the productivity and performance of enterprises, it should also build an economic growth policy system conducive to sustainable development. All kinds of social and environmental factors should be internalized into the costs/benefits structure of the economic system, thus promoting the simultaneous sustainable development of the economy, society and the environment. There should be equal emphasis on green development and human development, alongside economic viability, more attention to the basic rights of people, and extended efforts in establishing mechanisms that promote the participation of individuals or groups in social governance.

Specifically, this requires the government to incorporate the requirements for CSR and sustainable development into policy mechanisms such as market access, corporate credit eval-
ulation, financial support, investment promotion, regulatory evaluation, sustainable consumption, and government procurement. The government should set clear expectations for responsible corporate operations and sustainable development by increasing support for enterprises and improving guiding and supervisory policies.

Such policies should not only be relevant to enterprises in the domestic arena, but to Chinese enterprises operating overseas too. The social impact associated with labour issues and community engagement poses the most pressing challenge to China’s overseas investments. At the symposium on the fifth anniversary of the Belt and Road Initiative in August 2018, Xi Jinping pointed out that the Belt and Road Initiative should lead the “international moral commanding ground”, aiming at better management of labour issues, human rights, community relations, and social impact of overseas investments. In 2018, the Chinese government has called on all market entities involved in the Belt and Road to “fulfil corporate social responsibility and abide by the UN Global Compact”, an appropriate and important policy orientation (Joint Communiqué of the Leaders’ Roundtable of the 2nd Belt and Road Forum for International Cooperation).

II. The role of enterprises in driving the business ecosystem towards sustainability and human development

Over the past 40 years, the greatest and most profound challenge that Reform and Opening Up has posed to enterprises is how to address their own economic, social and environmental impacts while taking advantage of growth opportunities. Today, enterprises must realize that responsible operations and sustainable development have become key components of any business ecosystem, playing a decisive role in resource allocation and competition. They should combine the concept of responsibility for the economy, society, and the environment with their own core resources, production and operations, which is crucial for value creation and business continuity.

Internally, responsible operations can help enterprises attract and retain high-level employees, cultivate a positive and cooperative corporate culture, promote innovation, and improve operational efficiency. Externally, handling the relations with diverse stakeholders in a responsible way can enhance their intangible assets’ value, such as their reputation, and generate good will. Therefore, how an enterprise fulfils its social responsibility also determines its ability to obtain internal and external resources, making social responsibility another tool that has a bearing on the competitiveness of the enterprise itself.

To make full use of this resource, in their corporate strategy and culture, enterprises should
focus on their development, as much as on the well-being of the society and communities where they operate and follow the principle of “shared value” in terms of business decision-making and social impact. They should use some of their resources and expertise to create products and services that meet social needs, possibly gaining a competitive edge and advancing social progress while achieving their own economic objectives. The value of products and services is ultimately up to the recognition of consumers, customers, and stakeholders, and the recognition of a responsible corporate strategy and culture should bring a premium. Enterprises should also promote the coordinated development of the economy, society, and environment through innovation, which is not only vital to the enterprises themselves but also to society. Overall, Chinese companies should understand and practice social responsibility in a way that strikes a balance between economic viability and social and environmental sustainability and deploy strategies and resources to simultaneously improve the business ecosystem as well as public welfare.

Global supply chains are not only part of the natural business ecosystem, but are also where risks associated with the social impact of enterprises are concentrated and transmitted. Therefore, all participants in the global supply chain should handle relations with society based on the concept of sustainability.

As Chinese enterprises are becoming global actors and key players in global value chains, they must pay close attention to their impact on local labour, communities, and society in the process of expanding overseas operations. They should manage related risks through effectively following international standards and best practices aligned with the attainment of the UN SDGs and enhance the social and environmental sustainability of their investment projects, including the “people-oriented” principle at the core of their strategies.

III. Public participation and external support for the business ecosystem

The experience of Reform and Opening Up over the past 40 years suggests that social forces and public participation can effectively influence the behaviour of enterprises and their strategies for dealing with social and environmental impacts. Civil society organizations and the public, as enterprise stakeholders, are the advocates and disseminators of social values and common goals. Therefore, in addition to overseeing corporate social and environmental impacts, they can provide strong backing for the sustainability agenda and partner with enterprises on addressing common challenges.

The improvement of living standards and the subsequent gradual formation of civil society
organisations gave rise to higher awareness of corporate social responsibilities. Civil society organizations can help to continuously improve the business ecosystem by shaping a social climate that promotes the responsible performance of enterprises, so as to ensure that corporate goals are in alignment with sustainable development goals.

To this end, vigorous support by the government and business ecosystem should be provided for the lawful growth and development of all types of civil society organizations, such as consumer, environmental protection, and labour organizations. More importantly, they should be empowered to participate in public governance to bring into play their role in their interactions with enterprises. Successful experiences in supporting stakeholder engagement with business ecosystem development should be promoted and scaled up. An example would be the new system developed by the government for corporate disclosure of their environmental footprint. This mechanism includes a more stringent environmental impact assessment system involving compulsory public consultation, corporate environmental information disclosure, public participation in corporate environmental governance, environmental technology upgrading, and supply chain players’ collaboration on environmental issues. It has created the necessary social conditions for environmental protection, mobilized social forces, and established social mechanisms to better align corporate strategies and behaviour to economic, social and environmental sustainability.

As opposed to the traditional path that focuses on the legal aspect, the path of “social responsibility” promotes “green development” and advances a “people-oriented development” approach for Chinese society, shaping a dynamic social ecosystem for environmental protection. The balanced focus on green development and people-oriented development should be further promoted by CSOs.

Finally, dialogue and cooperation between enterprises and different stakeholders can help to effectively allocate resources and improve the resource efficiency of the whole social ecosystem. This requires all kinds of civil society organizations including media and academia to strengthen their influence on the social impact and sustainable development of enterprises and take targeted actions to promote responsible operations and sustainable development of enterprises according to their own missions and resources. For example, they can exert influence over the decision-making of enterprises through monitoring, dialogue, and collaboration. In addition to disclosing the negative impact of enterprises, the media can investigate and publicize responsible business practices, and help foster a sound market and social climate by informing consumers. Academic institutions can conduct research on the social and environmental impacts of enterprises to raise awareness and evidence-based knowledge. Academia should provide relevant courses and programs on
mainstream concepts like sustainability in their curricula and cultivate talents who have a strong sense of responsibility to be better equipped to advance sustainable development. Industry groups can promote industry self-discipline in social responsibility through standard setting, corporate performance evaluation, promotion and training, and consulting services. They can also conduct exchanges and cooperation with international organizations and institutions, participate in the formulation and implementation of international standards and guidelines, and establish a mechanism for promoting cooperation on social responsibility and sustainable development along the Belt and Road.
Appendix
Appendix 1:
Key milestones in the evolution of the business ecosystem and sustainable development in China
<table>
<thead>
<tr>
<th>Time</th>
<th>Sphere</th>
<th>Event</th>
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</thead>
<tbody>
<tr>
<td>1978</td>
<td>Environmental</td>
<td>The Constitution revised in March states that “the state shall protect the environment and natural resources, and work to prevent pollution and other public hazards.” This is the first constitutional provision on environmental protection in China, laying a foundation for environmental legislation and environmental protection.</td>
</tr>
<tr>
<td>1978</td>
<td>Generic</td>
<td>On May 10, the article titled Practice is the Sole Criterion for Testing Truth was published in the Theory Dynamics periodical of the Central Party School, which triggered a heated discussion on the criterion of truth.</td>
</tr>
<tr>
<td>1978</td>
<td>Generic</td>
<td>From December 18 to 22, the third plenary session of the 11th CPC Central Committee was held in Beijing, which adopted a strategic resolution on shifting the focus of the Party’s work to the socialist modernization drive from 1979.</td>
</tr>
<tr>
<td>1979</td>
<td>Economic</td>
<td>On July 1, the second session of the Fifth National People's Congress passed the Law of the People's Republic of China on Sino-foreign Equity Joint Ventures, which is China's first law concerning foreign capital.</td>
</tr>
<tr>
<td>1979</td>
<td>Environmental</td>
<td>On September 13, the Environmental Protection Law of the People's Republic of China (Trial) was promulgated, providing a legal guarantee for the coordinated development of the environment, economy, and society for the first time.</td>
</tr>
<tr>
<td>1979</td>
<td>Generic</td>
<td>On October 20, an article titled We Must Clarify the Purpose of Socialist Production was published in the People's Daily, which aroused a nationwide discussion on the purpose of socialist production.</td>
</tr>
<tr>
<td>1980</td>
<td>Economic</td>
<td>On April 17 January, China's representation in the International Monetary Fund (IMF) was restored.</td>
</tr>
<tr>
<td>1980</td>
<td>Economic</td>
<td>On October 17, the State Council adopted the Interim Provisions on Promoting and Protecting Socialist Competition, pointing out that the current economic system should be reformed to encourage and protect competition.</td>
</tr>
<tr>
<td>1981</td>
<td>Economic</td>
<td>On July 17, the State Council issued the Several Provisions on the Urban Non-agricultural Private Sector, emphasizing that small private businesses are a necessary supplement to the state-owned economy and collective economy.</td>
</tr>
<tr>
<td>1981</td>
<td>Economic</td>
<td>From October 26 to 29, the China Food Industry Association, the first industry group in China, held its inaugural conference in Beidaihe.</td>
</tr>
<tr>
<td>1982</td>
<td>Generic</td>
<td>On December 4, the fifth session of the Fifth National People's Congress adopted the newly revised Constitution of the People's Republic of China, of which Article 11 stipulates that small businesses run by urban and rural residents are a supplement to the socialist public economy, providing a legal guarantee for the status of privately-owned small businesses in the national economy, and that the state shall protect their legitimate rights and interests, and guide, support and oversee their development through administrative management.</td>
</tr>
<tr>
<td>1983</td>
<td>Environmental</td>
<td>At the second national conference on environmental protection, then Vice Premier Li Peng announced on behalf of the State Council that environmental protection is a basic national policy.</td>
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<tr>
<td>1984</td>
<td>Economic</td>
<td>On March 12, the fourth meeting of the Standing Committee of the Sixth National People's Congress adopted the Patent Law of the People's Republic of China, effective from April 1, 1985.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>On May 11, the Law of the People's Republic of China on the Prevention and Control of Water Pollution was adopted at the fifth meeting of the Standing Committee of the Sixth National People's Congress.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>On December 8, the State Environmental Protection Administration was established.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>In December, the China Consumers Association, a national consumer organization, was established in Beijing.</td>
</tr>
<tr>
<td>1985</td>
<td>Economic</td>
<td>On March 7, the State Council approved the Provisional Measures for Product Quality Supervision released by the National Bureau of Standards.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>On September 15, the State Council approved the China Spark Program developed by the National Science and Technology Commission. The development program aimed to promote the development of the local economy through science and technology projects.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>On December 28, the conference on the issuance of the first batch of patent certificates was held in Beijing, at which 143 patent applicants received patent certificates.</td>
</tr>
<tr>
<td>1986</td>
<td>Environmental</td>
<td>On January 12, the State Council issued the Provisional Regulations on the Administration of Energy Conservation.</td>
</tr>
<tr>
<td></td>
<td>Generic</td>
<td>On April 12, the Generic Principles of the Civil Law of the People's Republic of China was adopted, effective from January 1, 1987.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>On April 12, the Compulsory Education Law of the People's Republic of China was adopted, specifying the nine-year compulsory education system.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>In October, the State Council set up a leading group on foreign investment. On November 11, it issued the Regulations on Encouraging Foreign Investment, encouraging foreign investors to set up joint ventures, cooperative ventures, and foreign-funded companies in China.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>On November 18, the CPC Central Committee and the State Council forwarded the Outline of the High-tech Research and Development (863) Program.</td>
</tr>
<tr>
<td>1987</td>
<td>Economic</td>
<td>On April 2, the winners of the first national outstanding entrepreneurs’ awards were announced, and 20 entrepreneurs were honoured by the National Economic and Trade Commission.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>On May 22, the Environmental Protection Committee of the State Council released the Outline for Environmental Protection in China.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>On August 5, the State Council released the Interim Regulations on the Administration of Urban and Rural Individually Owned Businesses.</td>
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<tr>
<td>1987</td>
<td>Environmental</td>
<td>On September 5, the 22\textsuperscript{nd} session of the Standing Committee of the Sixth National People's Congress adopted the <em>Law of the People's Republic of China on Air Pollution Prevention and Control</em>.</td>
</tr>
<tr>
<td>1988</td>
<td>Economic</td>
<td>From March 25 to April 13, the Seventh National People's Congress deliberated and adopted the <em>Amendment to the Constitution of the People's Republic of China</em>, which stipulates that “The state allows the private economy to exist and develop within the scope prescribed by law. The private economy is a supplement to the socialist public economy. The state protects the lawful rights and interests of the private economy, and guides, supervises, and administers its development.”</td>
</tr>
<tr>
<td>1989</td>
<td>Economic</td>
<td>On October 4, China signed the <em>Madrid Agreement Concerning the International Registration of Marks</em> with the World Intellectual Property Organization.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>In October, the China Youth Development Foundation launched the Hope Project.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>On November 6, China became a member of the Governing Council of the United Nations Environment Programme (UNEP).</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>From December 20 to 26, the 11\textsuperscript{th} session of the Standing Committee of the Seventh National People's Congress passed the <em>Environmental Protection Law of the People’s Republic of China</em>.</td>
</tr>
<tr>
<td>1991</td>
<td>Environmental</td>
<td>From June 18 to 19, the Ministerial Conference on Environment and Development of Developing Countries was held in Beijing. It adopted the <em>Beijing Declaration</em> aimed at promoting international cooperation on environment and development.</td>
</tr>
<tr>
<td>1992</td>
<td>Social</td>
<td>On March 8, the State Council released the <em>National Program for the Medium- and Long-term Development of Science and Technology</em>.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>From March 20 to April 3, the fifth session of the Seventh National People's Congress adopted the <em>Trade Union Law of the People's Republic of China</em> and the <em>Law of the People's Republic of China on the Protection of Rights and Interests of Women</em>.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>In July, the CPC Central Committee and the State Council released the <em>Ten Strategies for Environment and Development</em>, putting forward the strategy of sustainable development for the first time.</td>
</tr>
<tr>
<td>1993</td>
<td>Economic</td>
<td>On February 22, the 30\textsuperscript{th} session of the Standing Committee of the Seventh National People's Congress adopted the <em>Product Quality Law of the People's Republic of China</em>.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>From August 26 to September 2, the third session of the Standing Committee of the Eighth National People's Congress adopted the <em>Anti-unfair Competition Law of the People's Republic of China</em>.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>From October 22 to 31, the fourth session of the Standing Committee of the Eighth National People's Congress adopted the <em>Law of the People's Republic of China on Protecting Consumers' Rights and Interests</em>.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>From October 22 to 31, the fourth session of the Standing Committee of the Eighth National People's Congress adopted the <em>Red Cross Society Act of the Republic of China</em>.</td>
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<tr>
<td>1993</td>
<td>Generic</td>
<td>From November 11 to 14, the third plenary session of the 14th CPC Central Committee was held in Beijing, which deliberated and adopted the <em>Decision on Several Issues Concerning the Establishment of a Socialist Market Economic Structure</em>, which set the direction and basic content of the reform aimed at developing a socialist market economy.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>On December 29, the fifth session of the Standing Committee of the Eighth National People’s Congress adopted the <em>Company Law of the People’s Republic of China</em>.</td>
</tr>
<tr>
<td>1994</td>
<td>Environmental</td>
<td>On March 25, the 16th executive meeting of the State Council adopted <em>China’s Agenda 21 - White paper on China’s Population, Environment and Development in the 21st Century</em>, the world’s first national agenda for the 21st century.</td>
</tr>
<tr>
<td></td>
<td>Society</td>
<td>In April, the State Council released the <em>National 8-7 Plan for Poverty Alleviation (1994-2000)</em>, marking the beginning of a new stage of development-oriented poverty alleviation.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>In April, at the second session of the Seventh Standing Committee of the All-China Federation of Industry and Commerce, 10 private entrepreneurs jointly initiated the China Guangcai Program for poverty alleviation.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>From June 28 to July 5, the eighth session of the Standing Committee of the Eighth National People’s Congress adopted the <em>Labor Law of the People’s Republic of China</em>, which came into force from January 1, 1995.</td>
</tr>
<tr>
<td>1995</td>
<td>Environmental</td>
<td>In August, the State Council issued the <em>Interim Regulations on the Prevention and Control of Water Pollution in the Huaihe River Basin</em>, the first of its kind in China.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>On October 30, the 16th session of the Standing Committee of the Eighth National People’s Congress adopted the <em>Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste</em>.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>The Ninth Five-year Plan makes it clear that the strategy of the country prospering through science and education and sustainable development will be national strategies.</td>
</tr>
<tr>
<td>1997</td>
<td>Environmental</td>
<td>From October 27 to November 1, the 28th session of the Standing Committee of the Eighth National People’s Congress adopted the <em>Law on Energy Conservation of the People’s Republic of China</em> and the <em>Construction Law of the People’s Republic of China</em>.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>On March 15, the second session of the Ninth National People’s Congress adopted the <em>Contract Law of the People’s Republic of China</em>, which came into effect from October 1, 1999.</td>
</tr>
<tr>
<td>1999</td>
<td>Generic</td>
<td>From March 5 to 15, the Ninth National People’s Congress adopted the <em>Amendment to the Constitution of the People’s Republic of China</em>, of which Article 16 states that the individual economy of urban and rural working people, operating within the limits prescribed by law, is a complement to the socialist public economy; the state protects the lawful rights and interests of the individual economy, and guides, supervises, and administers its development.</td>
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<tr>
<td>1999</td>
<td>Social</td>
<td>On June 28, the 10th session of the Standing Committee of the Ninth National People's Congress deliberated and adopted the <em>Law of the People's Republic of China on Donations for Public Welfare</em>, specifying the act of donation, the use and management of donations, preferential measures, and related legal liabilities.</td>
</tr>
<tr>
<td>2001</td>
<td>Social</td>
<td>On October 27, the 24th session of the Standing Committee of the Ninth National People's Congress adopted the <em>Law of the People's Republic of China on Prevention and Control of Occupational Disease</em>, which took effect from May 1, 2002.</td>
</tr>
<tr>
<td>2002</td>
<td>Economic</td>
<td>On November 10, the Fourth Ministerial Conference of the World Trade Organization (WTO) in Doha, Qatar, unanimously adopted the resolution on China's accession to the WTO, marking the success of China's 15-year efforts and its return to the international economic arena.</td>
</tr>
<tr>
<td>2002</td>
<td>Environmental</td>
<td>On June 29, the 28th session of the Standing Committee of the Ninth National People's Congress adopted the <em>Cleaner Production Promotion Law of the People's Republic of China</em>, which came into effect from January 1, 2003.</td>
</tr>
<tr>
<td>2002</td>
<td>Social</td>
<td>On June 29, the 28th meeting of the Standing Committee of the Ninth National People's Congress adopted the Safety Production Law, which came into effect from November 1, 2002.</td>
</tr>
<tr>
<td>2003</td>
<td>Environmental</td>
<td>In January, the State Council issued the <em>Program of Action for Sustainable Development in China in the Early 21st Century</em>.</td>
</tr>
<tr>
<td>2004</td>
<td>Social</td>
<td>On March 11, the <em>Minimum Wage Regulations</em> was enacted.</td>
</tr>
<tr>
<td>2004</td>
<td>Social</td>
<td>On February 11, the 39th executive meeting of the State Council adopted the <em>Regulations on the Management of Foundations</em>.</td>
</tr>
<tr>
<td>2005</td>
<td>Generic</td>
<td>On October 27, at the 18th session of the Standing Committee of the 10th National People's Congress, the <em>Company Law of the People's Republic of China</em> was amended for the third time. It clearly sets out that companies must abide by laws and administrative regulations, conform to social morality and business ethics, be honest and trustworthy, accept supervision from the government and the public, and take on social responsibility.</td>
</tr>
<tr>
<td>2006</td>
<td>Generic</td>
<td>In September, the Shenzhen Stock Exchange issued the <em>Guidelines on Corporate Social Responsibility for Shenzhen Stock Exchange Listed Companies</em>.</td>
</tr>
<tr>
<td>2007</td>
<td>Social</td>
<td>On February 24, the 26th session of the Standing Committee of the 12th National People's Congress adopted the <em>Corporate Income Tax Law</em>, of which Article 9 stipulates that “Expenditures in the form of welfare donations on the part of enterprises can be deducted from taxable incomes, provided that they are reasonable.”</td>
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<tr>
<td>2007</td>
<td>Generic</td>
<td>On March 16, the fifth Session of the 10th National People's Congress deliberated and adopted the <em>Property Law of the People's Republic of China</em>, China's first law that explicitly pledges to protect private property.</td>
</tr>
<tr>
<td></td>
<td>Generic</td>
<td>In April, the Sino-German Corporate Social Responsibility Project was launched, which lasted until June 2014.</td>
</tr>
<tr>
<td>Social</td>
<td></td>
<td>From June 24 to 29, the 28th session of the Standing Committee of the 10th National People's Congress deliberated and adopted the <em>Labor Contract Law of the People's Republic of China</em>.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>On August 30, the 29th session of the Standing Committee of the 10th National People's Congress adopted the <em>Anti-monopoly Law of the People's Republic of China</em>, which came into effect from August 1, 2008.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>From February 26 to 28, the 32nd session of the Standing Committee of the 10th National People's Congress adopted the revised <em>Law of the People's Republic of China on Prevention and Control of Water Pollution</em>.</td>
</tr>
<tr>
<td></td>
<td>Generic</td>
<td>From April 13 to 18, the Ministry of Commerce held the China-Switzerland training workshop on CSR.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>In May, the Shanghai Stock Exchange issued the <em>Guidelines on Environmental Information Disclosure of Listed Companies on the Shanghai Stock Exchange</em>, which clearly requires listed companies to fulfil social responsibility and disclose environmental information.</td>
</tr>
<tr>
<td>Social</td>
<td></td>
<td>After the devasting magnitude 8.0 earthquake struck Wenchuan of Sichuan Province at 14:28 on May 12, the State Council on June 8 issued the <em>Ordinance on Disaster Recovery and Reconstruction after the Wenchuan Earthquake</em>, which is China's first special regulation on post-earthquake recovery and reconstruction.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>On July 23, the executive meeting of the State Council presided over by Wen Jiabao decided to launch a nationwide energy-saving campaign. It also adopted the <em>Ordinance on Energy Conservation in Public Institutions</em>, effective from October 1, 2008.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>From August 25 to 29, the fourth session of the Standing Committee of the 11th National People's Congress deliberated and adopted the <em>Circular Economy Promotion Law of the People's Republic of China</em>.</td>
</tr>
<tr>
<td>Social</td>
<td></td>
<td>On September 11, Shijiazhuang Sanlu Group issued a product recall statement, saying that some batches of its infant milk powder produced before August 6, 2008 were contaminated by melamine. There were about 700 tons of such products on the market. The melamine incident then came to light.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>On September 18, the State Council issued the <em>Ordinance on the Implementation of the Labor Contract Law of the People's Republic of China</em>.</td>
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<tr>
<td>2009</td>
<td>Generic</td>
<td>On January 12, the China Banking Association issued the <em>Guidelines on Corporate Social Responsibility for Banking Financial Institutions in China</em>.</td>
</tr>
<tr>
<td></td>
<td>Generic</td>
<td>On September 9, at the symposium on corporate social responsibility of multinational companies, the Ministry of Commerce issued the draft of the <em>Guiding Opinions on Corporate Social Responsibility for Foreign-funded Enterprises</em> to solicit opinions.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>On November 26, the executive meeting of the State Council chaired by Wen Jiabao on Climate Change and Response announced that China will reduce the intensity of carbon dioxide emissions per unit of GDP in 2020 by 40 to 4% compared with 2005 levels, which will be incorporated into the long-term plan for national economic and social development as a binding metric, and relevant statistical, monitoring, and assessment measures will be developed.</td>
</tr>
<tr>
<td>2011</td>
<td>Generic</td>
<td>In September, SASAC issued the <em>Outline for the Implementation of the Harmonious Development Strategy for Central Enterprises during the 12th Five-year Plan Period</em>, vowing to develop honest, dynamic, green, and safe central enterprises as responsible corporate citizens.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>From February 27 to 29, the 25th session of the Standing Committee of the 11th National People’s Congress adopted the resolution on revising the <em>Cleaner Production Promotion Law of the People’s Republic of China</em>.</td>
</tr>
<tr>
<td></td>
<td>Social</td>
<td>On April 28, the State Council issued the <em>Special Rules on the Labor Protection of Female Employees</em>.</td>
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<tr>
<td></td>
<td>Generic</td>
<td>In June, SASAC established the Corporate Social Responsibility Steering Committee (“CSR Steering Committee”).</td>
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<tr>
<td>2012</td>
<td>Generic</td>
<td>In February, the Ministry of Commerce held a press conference on the CSR of Chinese enterprises operating overseas, which gave an overview of the CSR performance of Chinese enterprises “going global” and released the <em>Guidelines for Environmental Protection in Foreign Investment and Cooperation</em>.</td>
</tr>
<tr>
<td></td>
<td>Environmental</td>
<td>On September 12, the State Council issued the <em>Action Plan for the Prevention and Control of Air Pollution</em>, setting goals for air pollution prevention and control, that is, within five years, to improve the overall air quality across the country, significantly reduce the days of heavy pollution, and greatly improve the air quality of the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and the Pearl River Delta.</td>
</tr>
<tr>
<td></td>
<td>Economic</td>
<td>From November 9 to 12, the third plenary session of the 18th CPC Central Committee adopted the <em>Decision on Some Major Issues Concerning Comprehensively Deepening the Reform</em>.</td>
</tr>
<tr>
<td>2013</td>
<td>Generic</td>
<td>In May, the State Administration for Industry and Commerce issued the <em>Guidelines on Corporate Social Responsibility for Online Platform Operators</em>, specifying the main contents of social responsibility for online platform operators.</td>
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<tr>
<td>2014</td>
<td>Generic</td>
<td>In October, the fourth plenary session of the 18th CPC Central Committee deliberated and adopted the <em>Decision on Several Major Issues Concerning Promoting the Rule of Law</em>, which states that “legislation on corporate social responsibility” should be an important task in “strengthening legislation in key areas”.</td>
</tr>
<tr>
<td>2014</td>
<td>Social</td>
<td>In December, the State Council issued the <em>Guiding Opinions on Promoting the Development of Charitable Causes</em>, which promotes the healthy development of charitable causes. This is the first document on charity issued by the State Council.</td>
</tr>
<tr>
<td>2015</td>
<td>Environmental</td>
<td>On September 11, the meeting of the Political Bureau of the CPC Central Committee adopted the <em>Overall Plan for the Reform of Eco-civilization System</em>.</td>
</tr>
<tr>
<td>2015</td>
<td>Economic</td>
<td>On January 13, the State Council issued the <em>Guiding Opinions on Deepening the Reform of State-owned Enterprises</em>, in which the SOEs were classified into three categories: public welfare enterprises, commercial enterprises in fully competitive industries and fields, and commercial enterprises in key industries and fields.</td>
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<tr>
<td>2015</td>
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<td>On November 29, the CPC Central Committee and the State Council issued the <em>Decision on Winning the Fight Against Poverty</em>.</td>
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<tr>
<td>2016</td>
<td>Economic</td>
<td>On January 15, the State Council issued the <em>Plan for Promoting the Development of Inclusive Finance (2016-2020)</em>, the first strategy for inclusive finance at the national level.</td>
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<tr>
<td>2016</td>
<td>Social</td>
<td>On March 16, the fourth session of the 12th National People’s Congress adopted the <em>Charity Law of the People’s Republic of China</em>.</td>
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<td>2016</td>
<td>Social</td>
<td>On May 30, the State Council issued the <em>Guiding Opinions on Establishing the Joint Incentive and Punishment System and Accelerating the Construction of a Social Credit System</em>.</td>
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<tr>
<td>2016</td>
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<td>In July, SASAC issued the <em>Guiding Opinions on Improving Corporate Social Responsibility Performance of State-owned Enterprises</em>.</td>
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<td>2016</td>
<td>Economic</td>
<td>On August 24, the executive meeting of the State Council approved the <em>Plan for Improving Consumer Goods Standards and Quality (2016-2020)</em>.</td>
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<tr>
<td>2016</td>
<td>Environmental</td>
<td>On August 31, the People’s Bank of China, the Ministry of Finance and five other ministries jointly issued the <em>Guidelines on Building a Green Financial System</em>.</td>
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<td></td>
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<td>On November 22, the General Office of the State Council issued the <em>Opinions on Establishing a Unified System on Green Products’ Standards, Certification and Labeling</em>, making arrangements for the establishment of a unified green product system proposed in the <em>Overall Plan for the Reform of the Eco-civilization System</em>.</td>
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<td>2016</td>
<td>Social</td>
<td>On December 2, China issued the <em>Poverty Alleviation Plan for the 13th Five-year Plan Period</em> (2016-2020). The Plan specifies the general ideas, basic objectives, main tasks, and measures for poverty alleviation during the 13th Five-year Plan period, and puts forward the timetable and roadmap for winning the fight against poverty. It is a guide for all regions and departments to push forward poverty alleviation in the next five years and provides a basis for the development of special poverty alleviation plans.</td>
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<tr>
<td></td>
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<td>In December, the State Council issued the <em>Plan for the Construction of Innovation Demonstration Zones for the Implementation of the 2030 Agenda for Sustainable Development</em>, committing to build about ten innovation demonstration zones during the 13th Five-year Plan period.</td>
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<tr>
<td>2017</td>
<td>Generic</td>
<td>On March 15, the fifth session of the 12th National People’s Congress adopted the <em>General Principles of the Civil Law of the People’s Republic of China</em>, of which many provisions involve CSR performance.</td>
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<tr>
<td></td>
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<td>On May 14 and 15, the First Belt and Road Forum for International Cooperation was successfully held in Beijing.</td>
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<td></td>
<td>Environmental</td>
<td>In May, the Ministry of Environmental Protection, the Ministry of Foreign Affairs, the National Development and Reform Commission, and the Ministry of Commerce jointly issued the <em>Guiding Opinion on Promoting Construction of a Green ‘Belt and Road’.</em></td>
</tr>
<tr>
<td></td>
<td>Generic</td>
<td>In September, the CPC Central Committee and the State Council issued the <em>Opinions on Creating a Healthy Growth Environment for Entrepreneurs, Promoting Entrepreneurship and Giving Better Play to the Role of Entrepreneurs</em>, in which “observing discipline and law and strengthening responsibility” is regarded as the first principle and fulfilling social responsibility is a core aspect of entrepreneurship.</td>
</tr>
<tr>
<td></td>
<td>Generic</td>
<td>In December, the National Development and Reform Commission, the Ministry of Commerce, the People’s Bank of China, the Ministry of Foreign Affairs, and the All-China Federation of Industry and Commerce issued the <em>Code of Conduct for the Operation of Overseas Investments by Private Enterprises</em>.</td>
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Appendix 2: Policies, rules, and guidelines concerning corporate social responsibility
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<td>State-owned Assets Supervision and Administration Commission of the State Council (SASAC)</td>
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<td>8</td>
<td>Certification and Accreditation Administration of the People’s Republic of China (CNCA)</td>
<td>2012</td>
<td>Guidelines on Corporate Social Responsibility of Certification Agencies, and Guide on CSR Reporting for Certification Agencies</td>
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