

A NEW DIRECTION FOR DEVELOPMENT IN CHINA:

PERSPECTIVES ON SUSTAINABLE DEVELOPMENT AND GLOBAL GOVERNANCE

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INTRODUCTION

China is currently experiencing rapid growth in terms of economy, industry and population. The country boasts the world's largest population with more than 1.3 billion inhabitants.¹ Since 1980, its economy has been the fastest growing in Asia, and stands as the second-largest economy in the world after the United States, as measured by purchasing power parity. The economic effect of this industrialization has served to afford larger portions of the Chinese population with greater purchasing power and access to goods associated with higher standards of living. However, this change has occurred on a vast scale in an abbreviated time period, contributing to China's demonized image of being among the dirtiest of polluters and the greediest of energy consumers. As of 2005, China was home to 20 of the world's 30 most polluted cities.² China currently is responsible for an estimated 15% of the world's greenhouse gas emissions and relies on coal to produce between 60-70% of its energy needs.³ Dust storms and emissions from smelting operations that originated in China are affecting human health in neighboring states.⁴ China's cities are expanding at an alarming rate, reducing the amount of arable land for agriculture. Most of the river water flowing through these urban areas is unsuitable for drinking or fishing. Every year, 300,000 Chinese residents die prematurely because of the level of air pollution.⁵ China's size and rapid scale of development makes the nation an important case study for understanding the relationship between development and environmental sustainability, and whether they are mutually exclusive.

The most widely used development paradigm in China is that of modernization. The modernization model encourages movement in a unilateral direction that is biased towards Western values, customs, and ideas. It has redirected a society that depended primarily upon agriculture less than a century ago to consumerism and a state of industrial and economic development. The economic take-off associated with modernization is supposed to raise GNP

1 CIA World Factbook: China. (updated 1 Nov. 2005; accessed 16 Dec. 2005) Available at:

<http://www.cia.gov/cia/publications/factbook/geos/ch.html>.

2 The Worldbank: China Quick Facts. (updated 2005; accessed 16 Dec. 2005) Available at:<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:20680895~pagePK:1497618~piPK:217854~theSitePK:318950,00.html>

EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:20680895~pagePK:1497618~piPK:217854~theSitePK:318950,00.html

3 Parker, L and J. Blodgett. Greenhouse Gas Emissions:Conflicting Situations, Conflicting Perspectives. CRS Report for Congress.

(Updated 7 Jan. 2005; accessed 10 Nov. 2005). The Library of Congress.

4 Day, K.A. (Ed).China's Environment and the Challenge of Sustainable Development. M.E. Sharpe, Inc. 2005. xxiii

5 Mallet, V. Dirty business: Review of The River Runs Black: The Environmental Challenge to China's Future by Elizabeth C.

Economy. Financial Times. 26 June 2004.

and alleviate poverty. Thus far, this paradigm has succeeded in preventing first world nations from being undermined by cultures with less industrial development, and has allowed those nations to exploit the available cheap labor and resources abroad. Modernization has spread capitalist values and has facilitated the exchange of people, services, and ideas. In the same vein, it has also been responsible for increased income disparity and vast ecological damage in nearly all corners of the globe.⁶ From 1981 to 2005, China's income inequality has risen from 28 percent to 41 percent.⁷ The failures of modernization and its associated environmental costs have given rise to a potentially new development paradigm: sustainable development.

Sustainable development has been defined as "growth that meets the needs of the present without compromising the ability of future generations to meet their needs."⁸ Although the earth's natural resources at one time seemed infinite, recent decades have revealed the planet's true finite nature. Oil crises hint at a waning fuel supply, while ecological disasters linked to industry demonstrate the fragility of natural ecosystems. In developed economies, growth is limited by the availability of natural resources and also by the earth's capacity to withstand human impact.⁹ Sustainable development accounts for the limits of the planet, and directs a course of growth that will satisfy the needs of both the present and future. The term sustainable development has been interpreted in a number of different ways. The general trends involve economic development and growth while maintaining the health and functionality of ecosystems and communities. In it, success is measured not through financial gain, but more broadly through the ability to provide for current generations without compromising needs of the future. In all, sustainable development is a collection of concepts and practices that facilitate increases in quality of life, applicable both to developed and developing nations.

In world that is increasingly interconnected, China's development actions have global implications. Voluntary global standards on social and environmental responsibility are being

6 Kelly, Laura. Final Paper for International Perspectives on Global Development. 14 May 2005.

7 The Worldbank: China Quick Facts. (updated 2005; cited 16 Dec. 2005) Available at:<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:20680895~pagePK:1497618~piPK:217854~theSitePK:318950,00.html>

8 Sprungli, D. C. "Making the link between Sustainable Development and Corporate Social Responsibility," Sinomonitor International. (updated Oct. 2005; cited 16 Dec. 2005). Available at:
<http://www.eldis.org/cf/search/disp/DocDisplay.cfm?Doc=DOC20158&Resource=f1csr>

9 Sprungli, D. C. "Making the link between Sustainable Development and Corporate Social Responsibility," Sinomonitor International. (updated Oct. 2005; cited 16 Dec. 2005). Available at:
<http://www.eldis.org/cf/search/disp/DocDisplay.cfm?Doc=DOC20158&Resource=f1csr>

constructed by the International Standards Organization to encourage international corporations to be more accountable for their operations.¹⁰ However, because these standards are not yet available, developed nations and global organizations continue to pressure China to deal with its vast environmental issues. Stakeholders in Chinese society have reacted to these concerns by recently taking a more aggressive stance promoting sustainable development. Government, business, investors, and citizens each hold their own capacity to influence society's course of development, with ultimate success determined by the social progress made. The People's Republic of China creates an operational framework from which other sectors can work to promote sustainable change. Those changes are financed by investors and corporations who promote environmental and social responsibility. Non-governmental organizations (NGOs) cooperate with the media and civil society to increase environmental consciousness and to hold polluters accountable for their actions. Development conditions in China are changing not because of any single action or institution, but because of a partnership among government, NGO's, private investors, and corporations operating both on a local and international scale. Support of stakeholder partnerships by developed nations who possess environmental knowledge, experience, and technology could assist China in a future development that promotes economic growth and environmental protection simultaneously.

GOVERNMENT

Determined to push to the forefront of global economics, the Chinese government has made bold steps in the world of environmental regulation to broach this new-found era of sustainable development. Through enacting laws that focus on pollution, energy consumption, and resource use, the Chinese central government has successfully laid down a framework from which sustainable development can grow. With the regulations of the most recent years remaining strong, and support for bolder parameters waxing by the day, China now stands on the brink of vast social progress. The position in which strict governmental action concerning the environment has placed the nation, combined with the exponential rate of industrialization seen today, makes China an ideal candidate to embrace a paradigm of sustainable development. However, the structure of China's government, based on a central government grounded in Beijing and supported by a fragmented network of provincial and local entities with overlapping

¹⁰ ISO and Social Responsibility. (updated 13 Sept. 2005; cited 16 Dec. 2005) Available at: www.iso.org/sr

jurisdictions, stands as a difficult obstacle to a smooth transition. Although the complications inherent to a government as bureaucratic as China's may prevent the movement from flawless perfection, instilling a sense of environmental responsibility within both corporations and citizens has left the nation with a fundamental framework necessary for social progress.

Within the governmental sector, two major components lie at the heart of propelling sustainable growth in China—legislation and agencies. Regulations passed by Parliament, such as the Environmental Protection Act, together with the enforcement power provided by governmental agencies, particularly the State Environmental Protection Administration (SEPA), have been shown as a successful combination in battling the environmental destruction wrought by large corporations. Through techniques such as incentives, public shame, and a rigorous demand for environmental impact assessments, both laws and agencies have shaped a growing Chinese industry as it turns down a more socially and environmentally responsible path.

With sustainable development as a priority for China in the upcoming years of predicted rapid economic growth, the central government has enacted a number of laws aimed at spurring environmental responsibility within corporations.¹¹ Most of these regulations target the need for corporate disclosure by forcing enterprises to report actions and consequent impact upon the environment. Most have seen a fair amount of success.

Virtually all legal provisions pertinent to the environment within the constitution of the People's Republic of China (PRC) center on the Environmental Protection Act (EPA).¹² The act not only encompasses a broad range of policies regarding water and air pollution, but also outlines the need for environmental impact assessments. According to the legislation, every corporation in China is obligated to disclose its environmental impact, as well as the impact of any imminent projects, to proper authorities. For example, the Prevention and Control of Water Pollution Act, a sub-category of the broader EPA, requires enterprises to report the details of their specific pollutants to the government, while also mandating treatment for excessive amounts of emissions.¹³ Refusal to disclose emission details by a company results in a fine imposed by the government. When successful, this method of encouraging environmentally sound industrial practices instills a sense of sustainable development in Chinese businesses. By

11 Corporate Environmental Reporting and Disclosure in China, 2005.

12 Corporate Environmental Reporting and Disclosure in China, 2005. <http://www.csr-asia.com/upload/environmentalreporting.pdf>. Accessed October 20, 2005.

13 Ibid.

knowing that the key to government approval lies with effective pollution control, most enterprises are likely to comply with regulations.

One regulation that has elicited much success in the drive to a sustainable future in China is the Environmental Impact Assessment Act (EIA Act).¹⁴ The act requires all enterprises undertaking projects to file an Environmental Impact Assessment report with the government. Consequently, environmental protection bureaus must approve the report prior to project launching. The need to file EIA reports has become a public venue through which citizens maintain a role in influencing corporate responsibility, a key factor in fostering social progress. An entire society, including both citizens and corporations, that supports environmental consciousness makes environmental responsibility a possibility.

In January of 2005, public criticism for a lack of EIA reports led to the halting of thirty major projects in China, most of which centered on energy production.¹⁵ The halting of these projects, collectively worth billions of dollars to the skyrocketing economy, demonstrates that times are indeed changing in China, and that the need for social and environmental consciousness has grown more prevalent in a nation that once condemned the questioning of the status quo. SEPA cites the move as a demonstration of the central government's commitment to avoiding "economic growth at the cost of the environment," lending encouragement to those concerned with the direction of China's economic future. Liao Xiaoyi, president of Global Village of Beijing, an NGO focused on Chinese development issues, similarly finds hope in the actions taken by the government. Ignoring environmental duties at the corporate level will lead to "society as a whole" suffering the ill effects.

The moratorium imposed upon these utility projects is not an isolated case, either. Crackdowns on enterprises that embarked on projects without first filing EIA reports have increased in frequency over the years. In April of 2005, Zhu Xingxiang, the director of the EIA division of SEPA, publicized the halting of several projects involving aluminum extraction.¹⁶ This announcement gives further credence to the triumph of both SEPA and the EIA Act, again reinforcing the positive aspects of government influence in the role of corporations embracing sustainable development in China.

¹⁴ Ibid.

¹⁵ Chuan, Qin. "Green law suspends US\$ billion schemes," China SRI. January 18, 2005. <http://csri.blogchina.com/579461.html>. Accessed November 1, 2005.

¹⁶ "SEPA fines alumina projects," China SRI. April 29, 2005. <http://csri.blogchina.com/1364082.html> Accessed November 1, 2005

Alternately, in a situation that speaks poorly for the implementers of the EIA, but applauds SEPA, the EIA center of Peking University was “blacklisted” in late October of 2005 due to malpractices.¹⁷ SEPA, taking strict measures to discipline EIA agencies nationwide, suspended operations for the center, on account of its substandard work. According to sources, not only did the agency ignore EIA standards, it also made misrepresentations regarding the environmental impact of projects in the surrounding area. The agency failed to do complete investigations of projects, and gave no reliable analysis on the use of clean energy in the projects.¹⁸ While this case reveals the potential downfall of the EIA Act, in that it requires a devoted agency for strict implementation, it also highlights the positive aspects of China’s SEPA. Although SEPA could have ignored the substandard work, or chosen to cover it up from public view, the agency instead openly criticized the Beijing-based EIA center, calling it “irresponsible” and demanding changes.¹⁹ The contradictory nature of this situation could be a manifestation of the complicated bureaucracy that has plagued China since the establishment of the PRC.

The case of the irresponsible Beijing EIA unit is one in which much credit is due to China’s environmental protection agency, SEPA. While regulations enacted by the Chinese government, specifically those regarding EIAs and disclosure, seem effective in instigating a sense of environmental responsibility within corporations in China, such laws would be futile without an appropriate enforcement agency. Fortunately, recent history has shown SEPA to be successful in both implementing environmental regulation and responding to those unwilling to comply. The *New York Times* even cites the “once meek” agency as “aggressive in identifying and going after polluters and calling for reforms.”²⁰

The role that SEPA plays in Chinese environmental politics centers on the idea of disclosure. Standing behind the power of the EIA Act, SEPA can mandate full disclosure regarding environmental impact from enterprises at work within the nation. The agency’s commitment to implementation of the EIA is evident in all of the aforementioned cases; halting projects despite their anticipated economic value proves SEPA as a legitimate agency whose regulatory power is to be taken seriously. Beyond intervening in possibly environmentally

17 “Environment Agency Blacklisted,” China View. October 27, 2005. http://news.xinhuanet.com/english/2005/10/27/content_3688778.htm
Accessed November 5, 2005.

18 Ibid.

19 Ibid.

20 Yardley, Jim. “China’s Next Big Boom Could Be the Foul Air,” *New York Times*. October 30, 2005.

destructive projects, SEPA has also exerted its influence in the realm of environmental responsibility through the use of incentives and “blacklisting.”

In 2004, SEPA launched a program to honor those corporations exhibiting exemplary environmentally sound business practices with the title of “National Environment-Friendly Enterprise.” By the end of October of 2005, thirty-two companies had been awarded the title, following remarkable performance in “clean production, pollution treatment, and energy and resources savings,” many of which included power companies and those involved with cement or chemical production.²¹ SEPA hopes that this policy of positive reinforcement will not only enhance the awarded enterprises’ reputations, but also will encourage industry to adopt clean production. Ultimately, the agency’s desire is to spur the need to reverse the environmental degradation that has taken place in China.²²

On the other end of the spectrum comes SEPA’s willingness to expose enterprises engaging in environmentally irresponsible behavior. In October of 2005, officials announced a plan to “blacklist” cities that do not meet national air quality standards. By warning off investors, SEPA plans to penalize these cities for their noncompliance.²³ Given the importance of maintaining a competitive economy in a nation that is rapidly adopting capitalism, it is likely that cities will respond to such a threat, and work to comply with government mandates.

This game of “naming and shaming” in Chinese business holds a crucial role in determining the future of enterprise in China. The World Wildlife Foundation (WWF), in their report on corporate social responsibility in China, cites the idea of incentives as primary in inducing change. Support of proactive companies who maintain high environmental standards could be a strong step in the right direction for the Chinese government as it steers toward sustainable development.²⁴ The demonstrated success of the nation’s existing pollution levy system validates this use of monetary motivation in China. Since the early 1980s, regulatory standards have been evolving to include solid wastes, wastewater, general air pollution, and sulfur dioxide emissions. All those enterprises that fail to meet the national standards suffer the

21 “Government honors 21 enterprises for environmental protection,” China View. October 20, 2005.

http://news.xinhuanet.com/english/2005-10/20/content_3656509.htm. Accessed November 1, 2005.

22 Ibid.

23 “China to blacklist, penalize polluting cities,” China Economic Net. October 25, 2005.

http://en.ce.cn/Life/environment/200510/25/t20051025_5013626.shtml, Accessed November 10, 2005.

24 “Chinese Companies in the 21st Century,” World Wildlife Fund. 2005.

<http://www.panda.org/downloads/policy/chinesecompaniesinthe21centuryfinal.pdf>. Accessed October 5, 2005.

consequences of fining, thus losing a substantial margin of profit. Though faced with the challenges and setbacks akin to any developing economy, the system of levies has grown valuable to pollution control in China.²⁵

Other actions by the Chinese government also reflect the increasingly positive role of the government in encouraging corporate environmental responsibility. In a recent meeting of the Communist Party Central Committee, officials adopted a proposal regarding energy efficiency as part of the 11th Five-Year Plan of 2006-2010. The proposal aims for China to build an energy-efficient, less resource-intensive society within the next five years. Recognizing its current gargantuan energy use and resource consumption, the nation hopes to steer toward a more sustainable future. The plan revolves around dramatic changes in China's construction sector through the establishment of national green building standards.²⁶ Implementation of such standards would, in essence, force environmental responsibility on all corporations seeking to expand in China. While the goal of sustainable development remains a huge task before the nation, the enthusiasm behind it offers hope for a more environmentally conscious future.

In an informal discussion regarding sustainable development in China, Gretchen Hund, an expert in environmental policy and management from Battelle, a global science and technology enterprise, emphasized the need for much work to be done via global governance and international standards, in addition to the already existing governmental regulations.²⁷ "Self-regulation," she claimed, comparing the effectiveness of NGO work and individual action to that of governmental law, has proven "more positive and more effective at provoking change within a system like China's." Viewing governmental regulation as an important building block from which to start, she sees this "self-regulation" as a key addition to basic laws.²⁸

The NGO work and outside pressures touted by Hund and others could not be as successful as they are, were there no strong foundation of environmental legislation from which to build. The environmental regulations in existence now in China, especially the Environmental Protection Act and the EIA Act provide a solid base for encouraging environmental

25 "The Dynamics of China's Pollution Levy System," 2001.

<http://info.worldbank.org/etools/vod/PresentationView.asp?PID=507&EID=245>. Accessed November 17, 2005.

26 Li, Zijun, "China Aims to Build Energy Efficient Society in Next Five Years." World Watch Institute. October 20, 2005. <http://www.worldwatch.org/features/chinawatch/stories/20051020-2>. Accessed November 1, 2005.

27 <http://www.battelle.org>

28 Hund, Gretchen. Battelle. Personal communication. November 10, 2005.

responsibility and sustainable development in China. While such regulations may not be the catalyst for the most rapid or radical move toward a paradigm of sustainable development in China, they do offer an essential foundation from which NGOs, stakeholders, and the private sector can work.

ENVIRONMENTAL NONGOVERNMENTAL ORGANIZATIONS

Friends of Nature, the first domestic grassroots environmental nongovernmental organization (ENGO) in China, was founded in March of 1994. Its mission is to raise environmental awareness among the public in order to promote environmental protection and sustainable development, with particular movements to encourage widespread tree planting and to stop Tibetan antelope poaching.²⁹ In 2005, there were approximately 2,000 ENGOs registered in China, with many more registered as business entities or operating outside of government regulation. They educate the public, private, and government sectors, report corruption and pollution, and provide critical resources that the government lacks to alleviate environmental problems effectively.³⁰ Environmental activism has boldly developed to include dam protests, lawsuits against polluting factories, media campaigns focused on holding government officials accountable for cleanup, and pursuing multinationals engaged in illegal activities.^{31,32} Working at local, national, and international levels, ENGOs encourage vital multi-sector cooperation to promote environmental campaigns and sustainable development in China. To understand the unique nature of ENGOs in China, it is important to first look at how Chinese NGOs are defined and able to operate within the regulatory framework. This is followed by an analysis of why ENGOs have become significant stakeholders and the associated challenges they will need to resolve.

29 Friends of Nature (cited 2 Dec. 2005) Available from: <http://www.fon.org.cn/english/>

30 Economy, E. Written Statement at the United States Congressional-Executive Commission on China Roundtable: Environmental NGOs in China: Encouraging Action and Addressing Public Grievances (updated 7 Feb2005; cited 1 Dec. 2005) Available from: <http://www.cecc.gov/pages/roundtables/020705/economy.php>

31 Economy, E. (2005). Environmental Enforcement in China. In K.A. Day (Ed.) *China's Environment and the Challenge of Sustainable Development*. (pp.102-120). Armonk, NY: M.E. Sharpe, Inc.

32 Economy, E. Written Statement at the United States Congressional-Executive Commission on China Roundtable. Environmental NGOs in China: Encouraging Action and Addressing Public Grievances (updated 7 Feb 2005; cited 1 Dec. 2005) Available from: <http://www.cecc.gov/pages/roundtables/020705/economy.php>

CLASSIFICATION OF NGOS

In China, NGOs are non-profit organizations that can register as social organizations or as private non-enterprise units (PNEU). The primary distinction is that social organizations are membership based, while PNEUs are not.³³ The phrase social organization is a broad heading that can be subdivided into academic associations, trade associations, professional associations, federations, and foundations.³⁴ In 2004, new regulations redefined the role of foundations, however, they remain intimately related with social organizations.³⁵ PNEUs include enterprise units that carry out social services, as well as commercial, academic, and research institutions that were removed from the state budget in 1998.^{36,37}

Another category of social organizations are government organized nongovernmental organizations (GONGOs). Because they are initiated by government officials, and remain intimately tied to them by funding and staff, GONGOs are not considered truly independent NGOs by Western society. GONGOs are social organizations that are not subject to a lengthy registration processes. It is believed that at least 2,000 GONGOs exist, but no official statistic has been published by the Ministry of Civil Affairs.³⁸ As supervisory organizations, GONGOs can engage in official responsibilities including policy consultation, information exchange, and international project coordination.³⁹

Many NGOs register as a corporate legal entity not eligible for tax cuts, or simply do not register at all, which makes them easier to be dismantled by government. These civil organizations may have been denied social organization status for a variety of reasons, or preferred higher independence and self-governance. In 2005 Zhuang Ailing, founder of the

33 Lu, Yiyi. The Growth of Civil Society in China: Key Challenges for NGOs. (updated Feb 2005.; cited 30 Nov. 2005) Available at: <http://www.riia.org/pdf/research/asia/China.pdf>

34 American Embassy in Beijing China (January 2003) Chinese NGOs: Carving a Niche Within Restraints. (updated Jan. 2003; cited 2 Dec. 2005). Available at: <http://www.usembassychina.org.cn/sandt/ngos.htm>

35 Congressional – Executive Commission on China – Virtual Academy: Chinese Civil Society Organizations. (updated 12 Aug 2005; cited 2 Dec. 2005) Available at: <http://www.cecc.gov/pages/virtualAcad/rol/ngosumm.php>

36 China NPO Network. Laws About NPOs. (updated Mar 2005, accessed 2 Dec 2005) Available at: <http://www.npo.org.cn/en/>

37 Simon, K.W. NGO Regulation in East and Southeast Asia: A Comparative Perspective. Thailand Law Forum. (updated April 2002; cited 2 Dec. 2005) Available at: <http://www.thailawforum.com/articles/ngo.html>

38 American Embassy in Beijing China. Chinese NGOs: Carving a Niche Within Restraints. (updated Jan. 2003; cited 2 Dec. 2005). Available at: <http://www.usembassychina.org.cn/sandt/ngos.htm>

39 Ru, J. Written Statement at the United States Congressional-Executive Commission on China Roundtable. Environmental NGOs in China: Encouraging Action and Addressing Public Grievances (updated 7 Feb 2005; cited 1 Dec. 2005) Available from: <http://www.cecc.gov/pages/roundtables/020705/Ru.php>

Shanghai-based Non-Profit Organization Development Center estimates that there are a total of 700,000-800,000 NGOs in China, although only 283,000 are officially registered with the Ministry of Civil Affairs.^{40,41}

PERTINENT REGULATIONS

The People's Republic of China has established administrative regulations to govern the operation and activities of NGOs. These guidelines, many which were established after the 1989 Tiananmen Square protests, limit the risk of social unrest and prevent the formation of organizations not aligned with government interest. Regulation analysis will be focused on social organizations and foundations, as well as the intimately related Public Welfare Donations Law that supports their financial operation.

The Regulations on the Registration and Management of Social Organizations requires an NGO to obtain a state sponsor who works in a similar subject area for official backing. They also must be guided by the Ministry of Civil Affairs and relevant professional authorities.⁴² Obtaining a state guarantor is an incredibly difficult and lengthy process because departments often refuse to assume responsibility for an organization and the problems it may cause. An environmental organization would likely seek sponsorship from the State Environmental Protection Administration (SEPA) or a more local environmental protection bureau. While SEPA is a strong advocate of ENGOs, local administration remains wary, as they fear ENGOs will uncover a range of illegal practices and poorly completed environmental remediation programs.⁴³ Registered social organizations must annually renew their registration and undergo review, maintaining close ties with the guarantor and the Ministry of Civil Affairs.⁴⁴

Further, this regulation allows government to prevent NGOs from becoming too large and powerful by two primary clauses. The first prohibits social organizations from establishing

40 Chong, Agnes. (2005) Chinese Civil Society Comes of Age. openDemocracy Ltd. (updated 2005: cited 2 Dec 2005) Available at: www.globalenvision.org/library/5/814

41 NGOs Getting More Prominence. China Daily (updated April 22, 2005; cited 2 Dec 2005). Accessed at: <http://www.china.org.cn/english/China/126708.htm>

42 China NPO Network. Laws About NPOs. (updated Mar 2005; cited 2 Dec 2005) Available at: <http://www.npo.org.cn/en/>

43 Economy, E. (2005). Environmental Enforcement in China. In K.A. Day (Ed.) China's Environment and the Challenge of Sustainable Development. (pp.113-6). Armonk, NY: M.E. Sharpe, Inc.

44 Congressional – Executive Commission on China – Virtual Academy: Chinese Civil Society Organizations. (updated 12 Aug 2005; cited 2 Dec. 2005) Available at: <http://www.cecc.gov/pages/virtualAcad/rol/ngosumm.php>

regional branches outside of Beijing while the second prevents a citizen from being the legal representative of multiple organizations. By keeping NGOs independent, they lack the ability to operate efficiently under common leadership of an experienced individual. As a result, large-scale social organizing that could politically threaten government or address a widespread environmental problem is limited. New NGOs can also not be founded in the same administrative area if there is an existing NGO doing similar work. In addition, existing NGOs can be disbanded if tasks are deemed too related. This undermines the ability of NGOs to promote the interests of citizens if existing NGOs or GONGOs are inefficient or have limited scope.⁴⁵ If NGOs lack sufficient funding or membership, the government can force them to close.⁴⁶

Foundations are non-profit organizations that are managed through the use of funds donated by foreign and domestic social organizations. Foundations can be classified as publicly funded or not publicly funded. If classified as not publicly funded, as international foundations are, they cannot accept donations from Chinese citizens.⁴⁷ Specific tasks of foundations vary greatly, and include grant-making, coordination and networking between donors and recipients, and research of issues surrounding projected projects. International foundations often work with NGOs to implement environmental projects. Since the open door policy of 1979, international foundations and philanthropic organizations were able to support a variety of issues in China. For instance, the World Wildlife Federation and Energy Foundation support international conservation and energy issues respectively.⁴⁸ As of 2000, there were at least 700 foreign grant making foundations in China.⁴⁹

The 2004 Foundation Regulations redefined how foundations can operate within China. International and domestic foundations are now treated equally. This means international foundations are no longer subject to background checks, however, they must be registered with

45 Lu, Yiyi.. The Growth of Civil Society in China: Key Challenges for NGOs. (updated Feb. 2005; cited 30 Nov. 2005) Available at: <http://www.riia.org/pdf/research/asia/China.pdf>

46 China NPO Network. Laws About NPOs. (updated Mar 2005; cited 2 Dec 2005) Available at: <http://www.npo.org.cn/en/>

47 Congressional – Executive Commission on China – Virtual Academy: Chinese Civil Society Organizations. (updated 12 Aug 2005; cited 2 Dec. 2005) Available at: <http://www.cecc.gov/pages/virtualAcad/rol/ngosumm.php>

48 Zhang, Ye. “China’s Emerging Civil Society.” The Brookings Institution (updated June 2003; cited 2 Dec. 2005). pg16. Available at: <http://www.brookings.edu/fp/cnaps/papers/ye2003.htm>

49 YuanVice, N. To Serve the People: NGOs and the Development of Civil Society in China. Congressional Executive Commission on China. (updated 24 Mar. 2003; cited 2 Dec, 2005) Available at: <http://www.cecc.gov/pages/roundtables/032403/yuanVice.php?mode=print>

the Ministry of Civil Affairs and be associated with approved Chinese professional units. The cost to establish a national foundation has also increased from US\$4,000-\$12,000 to US\$248,000-\$1,000,000. This increased cost discourages small foundations from registering.⁵⁰ Foundation regulations differ from social organization regulations in that the former is allowed to establish in a particular region even if another organization is working on a similar cause.⁵¹

The Public Welfare Donations Law of 1999 is the first piece of legislation concerning donation and tax abatement. The law was implemented to encourage donations of social work and public welfare by standardizing donation activities and protecting the rights of donors and receivers. Domestic and international donors can receive tax breaks as a result of this law, encouraging increased financial support, especially for NGOs.⁵²

FACTORS AFFECTING SUCCESS

Many factors contribute to the growth and increased impact that ENGOs are having in China. Political space, a rise in civil society, support of students engaged in higher education, and multi-sector partnerships are factors that positively affect ENGO influence capability.

Despite strict government regulations, ENGOs have received a greater political operating space for activism than NGOs in other sectors such as labor rights. Government lacks the resources to track and correct every NGO violation. Unless an NGO is deemed a political threat or has created large financial misdeeds, minor violations like being unregistered are sometimes overlooked. Tree-planting and recycling campaigns cause little controversy and create a positive image for government officials.⁵³ The government agency SEPA in particular supports ENGOs because they play a significant role in exposing and addressing grave environmental problems.⁵⁴ However, when ENGOs directly challenge the government, swift responses result. In 2002, Friends of Nature had to remove founding board member Wang Lixiong or face closure, because

50 Chong, Agnes. Chinese Civil Society Comes of Age. openDemocracy Ltd. (updated 2005; cited 2 Dec 2005) Available at: www.globalenvision.org/library/5/814

51 China NPO Network. Laws About NPOs. (updated Mar 2005; cited 2 Dec 2005) Available at: <http://www.npo.org.cn/en/>

52 Legal Environment for Development of NPOs in China. China Development Gateway. (updated 2000; cited 2 Dec. 2005) Available at: <http://www.chinagate.com.cn/english/1667.htm>

53 Ru, J. Written Statement at the United States Congressional-Executive Commission on China Roundtable. Environmental NGOs in China: Encouraging Action and Addressing Public Grievances (updated 7 Feb 2005; cited 1 Dec. 2005) Available from: <http://www.cecc.gov/pages/roundtables/020705/Ru.php>

54 American Embassy in Beijing China. Chinese NGOs: Carving a Niche Within Restraints. (updated Jan. 2003; cited 2 Dec. 2005). Available at: <http://www.usembassy-china.org.cn/sandt/ngos.htm>

he outwardly supported two Tibetan monks facing government execution.⁵⁵ Likewise, Green Watershed's activities were restricted and its director barred from traveling abroad after the ENGO criticized Yunnan Government decision-making on the proposed Nujiang dam. Since Chinese ENGOs want to avoid harsh government reprimands, they frequently self-censor activities and collaborate with government.⁵⁶

Another factor that has allowed for the rise in ENGO success in Chinese is the growth of civil society. From 1978-2004, the Chinese inhabitants considered in poverty decreased from 250 million to 26 million.⁵⁷ Modernization and economic reform have enabled 75 million Chinese inhabitants to become middle stratum (middle class) families in 2005.⁵⁸ Although income is the only index to defining this sector, the emergence of this moderately affluent group has significant implications for civil society. A rise in the middle class enables more citizens to voice concerns over social and environmental problems caused by rapid industrialization, that are not being adequately addressed by government. The methods that civil society uses to combat environmental problems are largely limited by public fear of government authorities, which induces self-censorship.⁵⁹ Still, many citizens are involved with NGOs and fuel mass-based environmental activities like tree planting.⁶⁰ Due to education and media exposure, more citizens are developing an environmental conscience that affects sustainable development at a variety of scales. Citizens can also be watchdogs with legal standing, since the 1991 Administrative Litigation Law enables citizens to sue government officials, encouraging accountability.⁶¹ As environmental concepts become more engrained in mainstream society, civil society can demand more sustainable development in China.

55 Economy, E. Written Statement at the United States Congressional-Executive Commission on China Roundtable. Environmental NGOs in China: Encouraging Action and Addressing Public Grievances (updated 7 Feb 2005; cited 1 Dec. 2005) Available from:

<http://www.cecc.gov/pages/roundtables/020705/economy.php>

56 Lu, Yiyi. Environmental Civil Society and Governance in China. Chatham House – The China Project. The Royal Institute of International Affairs. (updated Aug 2005; cited 30 Nov. 2005) Available at:

<http://www.chathamhouse.org.uk/pdf/research/asia/China160805.pdf>

57 Xinhua: Chinese NGOs Offer Help to Government. (updated 6 July 2005; cited 28 Dec. 2005) Available at:

http://news.xinhuanet.com/english/2005-07/06/content_3184736.htm

58 Zhigang, Xin. "Dissecting China's Middle Class" China Daily (updated 27 Oct. 2004, accessed 2 Dec. 2005) Available at: http://www.chinadaily.com.cn/english/doc/2004-10/27/content_386060.htm

59 Lu, Yiyi. The Growth of Civil Society in China: Key Challenges for NGOs. (updated Feb 2005; cited 30 Nov. 2005).

Available at: <http://www.riia.org/pdf/research/asia/China.pdf>

60 Friends of Nature (cited 2 Dec. 2005) Available from: <http://www.fon.org.cn/english/>

61 Yamamoto, T. and K.G. Ashizawa. 1999. Corporate-NGO Partnership in Asia Pacific. Brookings Institution Press: Washington, D.C. pg. 69.

China's top environmental activists tend to be located in major cities, are highly educated and have spent significant time abroad at universities or training with foreign ENGOs. These leaders and their associated ENGOs provide training and guidance for Chinese university environmental clubs. As a result, many university campuses have become breeding grounds for environmental activism. Although rarely registered, environmental clubs participate in a variety of environmental activities like boycotting Asia Pulp and Paper products due to illegal logging practices. On Earth Day 2004, over 100,000 college students in 22 different provinces partook in environmental events and campaigns.⁶² These highly educated citizens are learning the tools necessary to spur future sustainable development movements.

To advance environmental campaigns and remedy a variety of environmental problems, ENGOs have established partnerships with the media, philanthropic organizations, corporations, and government. These partnerships allow multiple sectors to address environmental problems with solutions coming from a variety of perspectives. Collaborating with the media increases public awareness of environmental problems and polluters and encourages local enforcement of regulations.⁶³ On November 13, 2005, a blast at chemical plant in Jilin caused around 100 tons of toxic benzene compounds to be released into the Songhua River. Government issued a public statement about the situation ten days after the explosion, to quell panicked residents and the media, who openly accused government officials of trying to conceal the spill. International attention to this event will cause stakeholders to demand more government transparency and accountability, so a similar situation does not erupt in the future.⁶⁴ The Internet in particular has aided in the formation of networks between ENGOs, experts, and citizens.

Philanthropic organizations provide much needed funding and resources for NGOs. Due to the technical knowledge required for much environmental work, collaboration with international organizations allows for transfer of knowledge, skills, and expertise. In exchange,

62 Economy, E. Written Statement at the United States Congressional-Executive Commission on China Roundtable. Environmental NGOs in China: Encouraging Action and Addressing Public Grievances (updated 7 Feb 2005; cited 1 Dec. 2005) Available from: <http://www.cecc.gov/pages/roundtables/020705/economy.php>

63 Day, K.A. (Ed) 2005China's Environment and the Challenge of Sustainable Development. M.E. Sharpe, Inc. pg 115.

64 China's Harbin Slammed For Toxic Spill 'Cover-up' (updated 29 Nov 2005; cited 2 Dec 2005. Radio Free Asia. Available at: http://www.rfa.org/english/news/politics/2005/11/29/china_harbin/

by working together with Chinese ENGOs, foreign foundations are better able to overcome societal boundaries, and have more efficient results within local communities.⁶⁵

Corporations recognize that NGOs are effective stakeholders for dealing with diverse sustainable development issues, and realize that closer community involvement encourages broad public support for future philanthropic activities.⁶⁶ ENGOs advance responsible corporate practices through the promotion of social and environmental certifications and by black-listing companies with social and environmental abuses.⁶⁷

Lastly, many ENGOs consider their relationship with government agencies and officials a priority over other relationships, as this enables them to seek support and rely on protection to solve critical environmental issues.⁶⁸ Government often funds environmental media sources, NGOs, and think tanks.⁶⁹ As a result, there often is not a clear demarcation between the third sector and government. For instance, at the founding of The All China Environment Federation, The Ministry of Finance donated US\$155,000 to support future efforts in protecting environmental rights and interests. A number of current and former government officials serve as council members and chairperson.⁷⁰ ENGOs may be able to affect change in the system by working within the bureaucratic system, rather than directly opposing it.

CHALLENGES

ENGOs are extremely dynamic Chinese civil society organizations. Although they have begun to impact government policy and address national environmental atrocities, they still have potential to mature and affect larger-scale change. Through innovation, increased collaboration, a honing of environmental skills, and a broader outlook on environmental issues, China's

65 Legal Environment for Development of NPOs in China. China Development Gateway. (updated 2000; cited 2 Dec. 2005)

Available at: <http://www.chinagate.com.cn/english/1667.htm>

66 Yamamoto, T. and K.G. Ashizawa. 1999. Corporate-NGO Partnership in Asia Pacific. Brookings Institution Press: Washington, D.C. pg. 15.

67 Gereffi, G., R. Garcia-Johnson, and E. Sasser. Aug. 2001. The NGO-Industrial Complex. *Foreign Policy*. 125:56-65.

68 Lu, Yiyi. The Growth of Civil Society in China: Key Challenges for NGOs. (updated Feb 2005; cited 30 Nov. 2005).

Available at: <http://www.riia.org/pdf/research/asia/China.pdf>

69 Lu, Yiyi. Environmental Civil Society and Governance in China. Chatham House – The China Project. The Royal Institute of International Affairs. (updated Aug 2005; cited 30 Nov. 2005) Available at:

<http://www.chathamhouse.org.uk/pdf/research/asia/China160805.pdf>

70 Qin Chuan. Government turns up NGO volume. Issued 26 April 2005, accessed 5

Dec. 2005. Available at: http://www.chinadaily.com.cn/english/doc/2005-04/26/content_437388.htm

ENGOS may have the ability to encourage development in China to take on a more sustainable approach.

New regulations for social organizations that would lift the requirement of obtaining a government sponsor have been discussed at length by the Ministry of Civil Affairs. The unveiling of these regulations has been drawn out continuously. Recent democratic revolutions in Georgia, Ukraine and Kyrgyzstan have caused The Ministry of Civil Affairs to delay such drastic legislation in the interest of national security.⁷¹ ENGOS should continue to lobby for an easing of regulations so civil society can continue to flourish and affect change. However, only adaptive ENGOS that find innovative solutions to inflexible bureaucratic structures will be able to thrive in the current society.⁷²

Many ENGOS lack the skills or expertise to efficiently address local environmental problems. Incorporating environmental awareness into civil society through public education will encourage more individuals to pursue professional fields in environmental sectors. Higher education and training can empower ENGOS and allow them to operate more professionally and competently. A third sector that is informed and concerned about China's environmental situation can drive government enforcement and hold polluters accountable for their actions.

Arguably, the greatest challenge ENGOS face in the future is tackling the broader issues that underlie many environmental problems. Many of these broader issues—including energy development and climate change—are extremely controversial, affect the economic well-being of communities, and conflict with government interest. For example, the Nujiang dam protested by Green Watershed and local peasants would have brought a huge power supply and accompanying economic investment to the region. Collaboration with multiple sector stakeholders both locally and internationally will aid Chinese ENGOS in promoting “triple bottom line” development that considers social and environmental wealth along with financial gain.⁷³

71 Yonding. Foreign Policy: China's Color Coded Crackdown. (updated Oct. 2005; cited 25 Nov. 2005) Available at: http://www.foreignpolicy.com/story/cms.php?story_id=3251

72 Lewis, D. and T. Wallace. (Eds.) 2000. *New Roles and Relevance: Development NGOs and the Challenge of Change*. Kumarian Press, Inc. pg15.

73 Lu, Yiyi. *Environmental Civil Society and Governance in China*. Chatham House – The China Project. The Royal Institute of International Affairs. (updated Aug 2005; cited 30 Nov. 2005) Available at: <http://www.chathamhouse.org.uk/pdf/research/asia/China160805.pdf>

FOREIGN INVESTORS

China's potential for further economic growth and development makes for a unique opportunity for corporations to engage in socially responsible conduct where it is currently lacking. China is clearly experiencing a developmental period that has particular importance to global issues such as climate change. Corporate Social Responsibility (CSR) is the lingo used by foreign investors to explain the maturing nature of how business is conducted. According to Stanley G. Deutsch, research analyst at Babson Capital Management, "The reasons [for Corporate Social Responsibility] are as much financial as moral. Pension accounting, legal problems, and these days, environmental problems, all can be claims on cash flow."⁷⁴ Although many of the financial organizations driving the adoption of CSR in China may do so because they see it as the appropriate moral reaction to China's development situation, one must also assume that CSR has proven itself to be a sound investment. According to Abby Joseph Cohen, chief United States investment strategist at Goldman Sachs, "Investors believe it is simply not acceptable to be environmentally irresponsible."⁷⁵ Investors have historically taken into account a great many factors when evaluating a company's investment potential, but never before has a company's contribution to society, defined by its level of corporate social responsibility, been a factor of such critical importance.⁷⁶ Amidst China's developmental trend of modernization it is becoming increasingly clear for corporations that they can no longer avoid environmental issues and must therefore begin responding to societal pressures to act in an environmentally appropriate manner. According to Michael J. Johnston, executive vice president of the Capital Group Companies, an international money management firm, "Shareholders are pressuring everyone to disclose what they are doing in the environmental arena."⁷⁷ Corporate social responsibility has only recently emerged from the environmental movement and is fast becoming a measuring stick in China and around the globe of any given corporation's contribution to, and impact on, society.⁷⁸ It is the hope of the Chinese government that the development of sound corporate practices on the part of foreign companies in China—like Sony, Toshiba, FedEx, Wal-Mart and others—will encourage more socially responsible behavior from Chinese companies.

74 Deutsch, Claudia H. 2005. Saving the Environment, One Quarterly Earnings Report at a Time. *The New York Times*, 22 Nov.

75 Ibid.

76 Nihon Keizai Shimbun, Inc. 2004. It pays to be a good corporate citizen. *The Nikkei Weekly*, 29, Nov.

77 Deutsch, 2005.

78 Nihon Keizai Shimbun, Inc., 2004

Although this may be the case, more specifically, CSR currently serves as an enabling tool for foreign businesses looking to expand in China.⁷⁹

Responsible behavior on the part of foreign companies in China is highly valued and often spotlighted by the Chinese government, thankful and eager to incorporate sustainable elements within the country's rapid development. Japanese electronics corporations Toshiba and Sony have both received public accolades for their CSR work in China.⁸⁰ Nonetheless, there is a danger in China's willingness to embrace companies boasting social responsibility, while not being able to easily evaluate company claims. Many corporations no doubt work to implement environment practices with the utmost sincerity. However, there are those that do not—those who invest a minute amount in actual environmental safeguards and many times that amount in the publicizing of their actions—attempting to persuade that a mere drop in the bucket has tsunami-like impact, essentially “green-washing” the competition and the public with “eco-pornography.”⁸¹

The fact remains that socially responsible corporations exist internationally and many see promise in China's market. During his opening remarks at a recent Beijing conference on corporate responsibility, China's Assistant Minister of Commerce Yi Xiaozhuan described the growing movement of corporate social responsibility as “a concrete action taken by Chinese companies to implement the political aspiration of the new Communist Party collective leadership—‘putting people first to create a harmonious society.’”⁸² Chinese citizens need to feel assured of a healthy environment and of safe products and workplaces, and the Chinese government needs to establish and enforce standards of sound business ethics throughout the country. Global investors financially support socially responsible business behavior in China to ensure a safe bid with Chinese investment and to uphold standards within the global arena. Chinese corporations exercise corporate social responsibility to compete internationally and survive domestically.

China has witnessed the impact of socially responsible corporate behavior resulting from increased financial backing by organizations such as insurance companies, pension funds, reinsurers, banks and other international investors. In the 2005 fiscal year the World Bank spent

79 Ibid.

80 Ibid.

81 Marlin, Alice and Tepper, John. 2003. A brief history of social reporting. *Business Respect*. Issue #51. March 9.

82 Miller, Tom. 2005. A Chinese definition of CSR. *Ethical Corporation*. Nov., pp. 34-35.

US\$2.8 billion on grants and loans for development projects and programs in the East Asia and Pacific region.⁸³ In 1981 the World Bank made its first loan to China to support the development of Chinese universities and has since spent a total of about US\$39.1 billion in China aid, financing 263 development projects of which 81 are still underway.⁸⁴ Of the World Bank's current active projects in China, many deal specifically with conservation, pollution control, improvement of environmental health and safety, poverty eradication and other issues of sustainability and social responsibility within the context of China's rapid development.⁸⁵

Asia Development Bank (ADB) is also investing in China. Boasting an eco-friendly portfolio with a variety of investments in energy conservation and renewable energy development the ADB, since its establishment in 1966, has provided approximately US\$82 billion in finances to over 1,500 development projects in Asia and the Pacific Region.⁸⁶ The ADB has lent China nearly US\$10 billion since 1986 to finance infrastructure, environmental protection, urban development, agriculture, education, and health. ADB lending in China now averages approximately US\$1 billion per year with 19 percent on energy, and 17 percent on environment and water supply.⁸⁷ In an internal report addressing China's economic prospects, the ADB described tackling China's environmental problems as "essential for improving the quality of life of people, attracting foreign investment and achieving sustainable growth."⁸⁸ The ADB recently developed a program for a range of tasks: improving the policy, legal, and regulatory framework; building capacity in key agencies; improving the environment in selected cities; promoting conservation of soil, water, and marine resources; and promoting the use of clean process and clean technologies in China for industrial production and power generation.⁸⁹

Two important agenda items at the eleventh conference of the UN Framework Convention on Climate Change in Montreal, Canada in December 2005 perhaps reflect the influence of ADB investments in the energy arena. These were a discussion of how to strengthen the functioning of the Clean Development Mechanism in China, and a discussion to

83 <http://web.worldbank.org/external/default/main?menuPK=318982&pagePK=141155&piPK=141124&theSitePK=318950> (last visited: 12/11/2005)

84 Ibid.

85 Ibid.

86 http://www.adb.org/Documents/Fact_Sheets/PRC.asp (last visited: 12/11/2005)

87 Ibid.

88 Ibid.

89 Ibid.

identify opportunities for member states of the European Union and international corporations to carry out Clean Development Mechanism projects in China. The Clean Development Mechanism (CDM) is one of the two project-based flexible mechanisms of the Kyoto Protocol.⁹⁰ As part of China's objectives for the promotion of clean energy sources, renewable energy, energy efficiency and energy conservation, China has set the goal of halving the energy intensity of its economy by the year 2020.⁹¹

Despite its foundation in relatively new and Western ideology, corporate social responsibility has been introduced within China's economy and has some prevalence and power within the corporate world to affect meaningful social change in China.⁹² China's economic market has shown itself to be nonetheless still emerging, and the country's population and economy continue to grow and develop without precedent. Any and all relevant entities of the financial world wish to benefit from China's growth and good fortune, and global insurers and investors are no exception to this phenomenon. Aiming to double its sewage disposal capacity over the next five years, China is hoping foreign investors with cutting-edge technologies and innovations will fund the financial shortfall of the country's sewage treatment market.⁹³ Currently investors receive a fifty-percent tax cut when investing in Chinese solar, wind and renewable energy, and the Chinese government continues work to develop even more favorable incentives encouraging businesses to make environmentally sound investments in the country.⁹⁴

By the end of the 2005 fiscal year Sompo-Japan Insurance Inc., one of Japan's top insurers, will spend nearly US\$200 million on investments in Chinese and Indian stocks. Sompo has recently expanded its presence in China and now manages offices in Daian, Suzhou, Beijing, Shanghai, Chongqing, Shenzhen, Guangzhou, Taipei and Hong Kong.⁹⁵ Swiss Re, one of the world's leading re-insurers, is investing in China's liability insurance market because it sees huge areas of growth potential in areas of legal, regulatory, environmental and consumer rights awareness. Swiss Re says, however, that China needs regulations and laws on reinsurance as

90 <http://www.cdmwatch.org/> (last visited: 12/11/2005)

91 http://www.delind.cec.eu.int/en/pressandinfo/press_releases_2005/028.htm (last visited: 12/11/2005)

92 <http://www.chinacsr.com> (last visited: 12/11/2005)

93 Liu, Yingling. 2005. China Woos Foreign Investors to Boost Sewage Treatment. *Worldwatch.org*. 8 Nov.

94 http://www.chinacsr.com/archives/2005/11/china_commits_t.php (last visited: 12/11/2005)

95 2004. Sompo continues China push with opening of Suzhou office. *Europe Intelligence Wire*. 6 April.

soon as possible so that more room is available for business development.⁹⁶ In 2004 the California Public Employees Retirement System (CalPERS) invested US\$200 million in the growth of environmental technologies.⁹⁷ In 2005 however, with US\$3.9 billion in emerging markets, CalPERS excluded China and Russia from the list of emerging markets in which it will invest, deciding further reforms are needed. California State Treasurer Phil Angelides warns that “CalPERS should steer clear of China until the country improves its legal controls and human rights record.”⁹⁸ Reform is happening in China but it is happening too quietly and too slowly for the level of investment that could and should be happening. According to Dr. Zheng Gongcheng, a professor at the People’s University and a member of China’s national parliament, “China needs to regulate social responsibility strictly.” Zheng explains that China has a surplus of labor, and it is currently too easy for companies to tread roughshod over their employees. Zheng describes the current void of CSR in China as an “abnormal state of affairs,” the result of China’s historical transition from a centrally planned economy in which each company had excessive social responsibilities to its current period of economic reform and expansion in which some enterprises have become irresponsible.⁹⁹ It is thus the situation that CSR will remain another esoteric acronym for greater government regulation of labor practices until China’s legal system matures and its economy plateaus allowing CSR to enter the legislative arena.¹⁰⁰ Responsibility or irresponsibility at the corporate level means the difference between health and safety or death and danger for coal miners, sweatshop workers and essentially all the citizens of China who breathe the air and drink the water of this developing country.

96 2005. Asia Africa Intelligence Wire. 30 June.

97 Deutsch. 2005.

98 2005. China syndrome: The 2-Minute Month. Global Investor. May.

99 2005. CalPERS rethinks China, Russia markets. Sacramento Bee. 13 March.

100 2005. Miller.

CASE STUDIES

The following case studies highlight cross-sector partnerships that have helped to further develop sustainable practices in China. The first study highlights the international cement producer LaFarge, and it demonstrates how a corporation can be independently motivated to become more environmentally and socially responsible and create precedent for others in the industry. The second case study on the Center for Biodiversity and Indigenous Knowledge, shows how an ENGO can help a rural community survive economically by tapping into the rising eco-tourism industry. These case studies occur on a variety of scales and show that there is no “one way” to innovatively encourage sustainable development while incorporating various stakeholders in the process. They also reveal that economic and sustainable development can happen at the same time.

LAFARGE CHINA

Cement is the critical ingredient in concrete, locking together the sand and gravel constituents in an inert matrix, making it a critical part of meeting society’s needs for housing and basic infrastructure such as bridges, roads, water treatment facilities, schools and hospitals. As the People’s Republic of China continues to industrialize on a large-scale, the demand for cement and the products for which cement is a constituent, such as concrete, will rise considerably. Anticipating this growth in the liberalizing Chinese economy that had previously been closed to them, LaFarge Group, the world’s largest cement producer, moved into China in 1994 with the acquisition of ChineFarge in Beijing. From their 1 million ton yearly capacity, they expanded in 1999, with the opening of the Dujiangyan plant in Chengdu, to a total countrywide capacity of 2.4 million metric tons per annum. In 2005 after three more plant openings, LaFarge’s capacity reached 5.95 million tons and 77,000 employees, bringing them into the top five producers in terms of capacity.¹⁰¹

In 1999, five years after breaking into the Chinese market, LaFarge Group, along with nine other major cement producing companies, engaged the World Business Council on Sustainable Development with the objectives of reducing the industry’s environmental impact,

101 LaFarge China. (Cited on: 09 Nov. 2005). Accessed at: <http://lafarge.wwf.kappuccino.org/chine/pop-en.html>.

increasing stakeholder engagement and understanding the industry's social effects.¹⁰² While an important aspect of modern society, cement production is extremely costly both environmentally and socially. In addition to major carbon dioxide emissions from the extraction of limestone from quarries, there are significant contributions from product manufacture and transportation. Transportation costs are so high that shipping via land is generally limited to within 300 km of a plant, a trip more expensive per unit ton than a trans-Atlantic Ocean crossing by a 35,000 ton barge.¹⁰³

The production of cement, as with the production of most goods, creates externalities beyond those of energy use. In quarrying limestone, landscapes are deeply impacted, while dust, vibration and noise disturb the surrounding biota. Throughout production, dangerous gases such as SO₂, NO_x and other micro-pollutants are released into the atmosphere.¹⁰⁴ The objectives set down by LaFarge and its industry peers were not easy ones to engage, but with the help of Battelle Memorial Institute, a non-profit consulting firm, the World Business Council on Sustainable Development with its partners in industry came up with six major agenda items to include in the Cement Sustainability Initiative: climate protection and CO₂ management; responsible use of fuels and materials; employee health and safety; emissions reduction; local impacts on land and communities; and reporting and communications.¹⁰⁵ Environmental recommendations focused largely on reducing CO₂ and equivalent emissions by investing in sustainable energy sources (such as biomass) and installing more efficient scrubbers in smokestacks, as well as integrating sustainable development practices into business strategy. On social fronts, recommendations included the improvement of working environment conditions and access to healthcare, as well as participation in long-term community planning and the promotion of regional growth. Perhaps most interestingly, the report emphasized the need for cooperation among industry leaders in order to promote innovation and further development.¹⁰⁴

Beyond LaFarge's participation in the Cement Sustainability Initiative, at the turn of the 21st century they became a founding partner of the World Wildlife Fund for Nature's Corporate

102 Cement Sustainability Initiative: Overview. World Business Council on Sustainable Development. (Cited 09 Nov. 2005). Accessed at: <http://www.wbcso.org/templates/TemplateWBCSD1/layout.asp?type=p&MenuId=MTI&doOpen=1&ClicMenu=LeftMenu>

103 Aylard, Richard and Louise Hawson. 2002. The Cement Sustainability Initiative: Our Agenda for Action. World Business Council for Sustainable Development. Geneva, Switzerland.

104 Aylard, Richard and Louise Hawson. 2002. The Cement Sustainability Initiative: Our Agenda for Action. World Business Council for Sustainable Development. Geneva, Switzerland.

Alliance program. With this partnership, LaFarge group provides funding and human capital to WWF projects worldwide. In China, LaFarge and its employees participate in a project monitoring the status of panda habitat in a reserve area near LaFarge's holding in Sichuan. The partners are also trying to raise environmental awareness among the communities in which they work. To those ends, LaFarge and WWF China are training "environmental ambassadors" in each plant to act as educators on environmental best practices both at work and at home.¹⁰⁵ Arguably among the most important joint-projects engaging the two partners is the development of a website for children that emphasizes environmental stewardship and awareness.¹⁰⁶

Prior to LaFarge's partnership with the World Wildlife Fund or its commitment to the Cement Sustainability Initiative, LaFarge made a commitment to preserve a number of ancient kilns dating to the Song Dynasty (A.D. 1127-1279) that were uncovered in constructing a plant in Sichuan.¹⁰⁷ For five months, construction was interrupted in order to safeguard the kilns so that construction could continue. After the completion of the facility, a purpose-built museum was constructed to display the artifacts on site at a cost of US\$730,000.

While LaFarge has made great strides in social responsibility, it is not without fault. The industry itself is unsustainable in nature. Limestone is a finite resource and the quarries, once exhausted, cannot be rebuilt to reform the previous landscape. In the first half of 2005, twenty employees, contractors and third parties died in the context of LaFarge business activities.¹⁰⁸ That said, LaFarge Group models the efforts that should and can be undertaken by multi-national conglomerates, placing people and sustainability as priorities not in conflict with profit. LaFarge also demonstrates how government, non-governmental organizations and communities can interact with business to build sustainable society, preserve the environment and to defend cultural history.

105 Sustainable Development Partnerships. LaFarge Group. (Cited: 09 Nov. 2005). Accessed from:

http://www.lafarge.com/cgi-bin/lafcom/jsp/content.do?function=wwf_locaux&lang=en&partenaire=http://www.google.com/search?client=safari&rls=en&q=lafarge+china+wwf&I=UTF-8&oe=UTF-8

106 Children of the Earth for a Living Planet. WWF China. (Cited: 09 Nov. 2005). Accessed from <http://www.wwfchina.org/kids/>

107 Sustainable Development Case Studies. LaFarge Group. (Cited 09 Nov. 2005). Accessed from <http://www.lafarge.com/cgi-bin/lafcom/jsp/pratic.do?function=pratiques&oid=1610621179&com.broadvision.session.new=Yes&lang=en&country=WW>

108 LaFarge China. 2005. Info LaFarge China. LaFarge Group. Beijing, China.

CENTER FOR BIODIVERSITY AND INDIGENOUS KNOWLEDGE

The integrated drivers for sustainable development are also from concerned, non-expert individuals within the community. In 1995, shortly after the first environmental non-governmental organization was formed, the Center for Biodiversity and Indigenous Knowledge (CBIK) formed in Kunming, Yunnan Province in southwestern China.¹⁰⁹ A membership-based research organization, CBIK serves research professionals, development practitioners and resource managers, to name a few. The organization focuses on issues of watershed governance, community livelihoods, the preservation of indigenous knowledge and increasing the organization's own capacity to further sustainable development initiatives.¹¹⁰ Among CBIK's greatest successes came recently with the opening of the Jisha Village Eco-Lodge.

Jisha is a village in the northwestern corner of the province in a region that has recently been renamed Shangri-La after the fictional utopian city in James Hilton's 1933 novel *Lost Horizon*.¹¹¹ In the 1960s, the region was struck with heavy and destructive deforestation, the work being done primarily by the thousands of lumber workings from northeast China brought in by the central government. To stave off poverty, the locals began to abandon their traditional livelihoods to join the logging army that, at its peak, was harvesting more than 400,000 cubic meters of timber a year.¹¹¹ In the wake of the 1998 massive flooding of the Yangtze River, the Chinese government, upon realizing that the primeval forests were quickly being replaced with second growth and that the hills that had once been considered sacred by locals had largely been destroyed, banned logging nationwide in an attempt to preserve the forests and wildlife that was left and to curb soil erosion.¹¹¹ As a result, over 400 people from Jisha, located in the new protected zone, lost their primary source of income. Exacerbating the economic downturn, the local township government contracted an outside company to develop mass tourism in Jisha and the Qianhu Mountains. The villagers were neither informed nor included in the writing up of the development plans.

109 Who We Are. Center for Biodiversity and Indigenous Knowledge. (Cited 02 Dec. 2005). Accessed from <http://www.cbik.ac.cn/cbik-en/index.htm>

110 What We Do. Center for Biodiversity and Indigenous Knowledge. Retrived on 02 Dec. 2005 from http://www.cbik.ac.cn/cbik-en/cbik/our_work.htm

111 Ecotourism to save nature. The China Daily. (Cited 02 Dec. 2005). Accessed from http://www.chinadaily.com.cn/en/doc/2003-11/14/content_281442.htm

The situation in Jisha improved in 2000, however, when the Yunnan provincial government, the Global Environmental Facilities (GEF), the Asian Development Bank and CBIK joined together with the local community on an agro-biodiversity conservation project that includes an eco-lodge that caters to the growing tourist population.¹¹¹ This move was not welcomed by all though. While many argue that the eco-tourists will help to alleviate poverty in the region, others still worry about the potential threat to the environment.¹¹² Many locals believe the region's lakes and mountains to be sacred. The two decades of logging also damaged the village's sense of community, splitting them between those who felt obligated to find work in the logging industry and those who saw it as sacrilege. Much of the mistrust was laid aside, however, when it became apparent that the villagers who worked at the lodge were not going to be exploited and were actually going to be paid.¹¹³

While the long-term success of this endeavor has yet to be determined, Shangri-La's eco-lodge acts as an effective model of an ideal partnership between communities, government and non-governmental organizations. Functioning together, they accomplish more than is feasible for any individual body, and, in working collectively, also increase the long-term viability of these projects because of the investment of multiple stakeholders.

CONCLUSION

Although the rise of socially responsible business in China should not be exaggerated, nor should its relative socio-economic-environmental impact be embellished, sustainable development may be gaining a foothold in China. Corporate behavior that is not just economically responsible, but also socially and environmentally responsible, is becoming of great importance to the growth and well being of developing nations like China. The adoption of socially responsible business practices by Chinese corporations and international corporations operating within China could serve to lessen negative impact upon the environment, steer the nation to a more sustainable future, and bring greater standards of health and safety to Chinese citizens. As demonstrated through the four analyzed socio-economic drivers: NGOs,

112 Letter; Modernizing Shangri-La. Lin Gu – BBC China Features. (Cited 02 Dec. 2005). Accessed from <http://news.bbc.co.uk/1/hi/programmes/3527844.stm>

113 Ecotourism to save nature. The China Daily. (Cited 02 Dec. 2005). Accessed from http://www.chinadaily.com.cn/en/doc/2003-11/14/content_281442.htm

corporations, government and investors, sustainable development in China relies on the interrelatedness and coordination of many sectors of society.

The rapid period of development that has struck the People's Republic of China makes the nation an interesting case study of the correlated nature of environment and economics. The Chinese government is working to improve the country's pollution and human rights record by enacting a legislative structure that provides legal incentive for environmental responsibility and opens the doors to NGO action. Corporations are striving to stay competitive within an increasingly environmentally sensitive global market, while NGOs and investors help the corporations to meet this goal. Although many other societal sectors act to promote sustainable development as well, it is the interaction of these four drivers that has met with success in encouraging a socially and environmentally responsible business paradigm in China.