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Item Type	Preprint
Authors	Lai, Qi
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Download date	2026-11-11 10:29:06
Link to Item	http://hdl.handle.net/20.500.12424/173894

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Internationales Management der Universität Bremen
und Internationaler Studiengang Volkswirtschaft, Hochschule Bremen

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Corporate Social Responsibility of SMEs in China: Challenges and Outlooks

Berichte des Arbeitsbereichs Chinaforschung

Nr. 18

HOCHSCHULE BREMEN
UNIVERSITY OF APPLIED SCIENCES

Universität Bremen

Berichte aus dem Arbeitsbereich Chinaforschung des Instituts für Weltwirtschaft und Internationales Management der Universität Bremen und des Internationalen Studiengangs Volkswirtschaft der Hochschule Bremen (die Hefte 1 bis 14 sind erschienen als *Berichte des Arbeitsbereichs Chinaforschung im Institut für Weltwirtschaft und Internationales Management, Universität Bremen*)

Bisher erschienen:

Nr. 18 Qi LAI, Corporate Social Responsibility of SMEs in China: Challenges and Outlooks, Juni 2006

Nr. 17 Daiwei HUANG, Der chinesische Bankensektor im Zeichen des WTO-Beitritts – Reformrückstände und Herausforderungen, Juni 2002

Nr. 16 Markus WAUSCHKUHN, Telecommunication and Economic Development in China, Mai 2001

Nr. 15 LEE Chunli, Chinas Automobilindustrie in der Globalisierung, April 2001

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Nr. 12 Achim GUTOWSKI und TANG Xiaozhong, Kooperationsmöglichkeiten für ausländische Unternehmen in der VR China, November 1998

– *Fortsetzung auf der dritten Umschlagseite* –

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Prof. Dr. K. Wohlmuth, Universität Bremen

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Schutzgebühr: € 3 ISSN: 0947–7977

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Nr. 18, Juni 2006

Summary

Corporate Social Responsibility (CSR) has become a worldwide demand. The globalization and social development appeal to all corporations, big or small, local or international, to take their corporate social responsibility into account by improving the social and environmental performance. Not only Transnational Corporations (TNCs) but also Small and Medium-Sized Enterprises (SMEs) have to face the challenge, including Chinese SMEs.

Ever since China carried out the economic system reform and opening up policies in 1978, SMEs have been sprouting and thriving all over China. This article analyses and identifies the current economic and CSR situation of SMEs in China. SMEs are indispensable for China's rapid economic development. However, they need to improve their CSR practice and need to have more consciousness of the social responsibility they should shoulder.

This article investigates the barriers and driving forces for Chinese SMEs to undertake CSR. In order to encourage Chinese SMEs to engage in CSR activities, it is not enough to just make use of the driving forces; different barriers have to be overcome in order to turn challenges into opportunities. TNCs, the Chinese government, international organizations and Civil Society Organizations (CSOs) are important actors driving CSR forward. Their joint efforts are important to promote CSR among Chinese SMEs. This article takes examples of different actors and analyses their different functions and different approaches.

Key words: Corporate Social Responsibility (CSR), Small and Medium-sized Enterprises (SMEs), China, Transnational Corporations (TNCs), International Organizations, Civil Society Organizations (CSOs).

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Abbreviations and Acronyms

ACFTU	All-China Federation of Trade Unions
AIESEC	Association Internationale des Etudiants en Sciences Economiques / International Association of Students in Economics and Management
CCOIC	China Chamber of International Commerce
CCPIT	China Council for the Promotion of International Trade
CPPCC	Chinese People's Political Consultative Conference
CSO	Civil Society Organization
CSPGP	China Society for the Promotion of the Guangcai Program
CSR	Corporate Social Responsibility
DTI	Department for Trade and Industry, the United Kingdom
IED	Institute of Environment and Development
MOLSS	Ministry of Labour and Social Security
NGO	Non-Governmental Organization
SEZ	Special Economic Zone
SME	Small and Medium-Sized Enterprise
SPX	Subcontracting and Partnership Exchanges
TNC	Transnational Corporation
UN	United Nations
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

Corporate Social Responsibility of SMEs in China: Challenges and Outlooks

Preface

This article has mainly been written on the basis of a review and analysis of the relevant literature. During a four-month research at the United Nations Industrial Development Organization (UNIDO) Headquarters in Vienna in 2004, information, materials and data were collected in order to understand CSR in general and to get to know UNIDO's perception of Corporate Social Responsibility (CSR) of both Transnational Corporations (TNCs) and Small and Medium-sized Enterprises (SMEs). A second research was carried out in the UNIDO Field Office in Beijing for three months in 2004 and 2005. During this period of time, the author took part in several workshops and meetings held in Beijing on the topic of CSR. She also took the opportunity to conduct several semi-structured interviews as well as telephone and email discussions in order to find out how CSR is perceived in some Non-Governmental Organizations (NGOs) and government-organized NGOs and what activities they have been undertaken in the CSR field.[1]The information and observation derived from the interviews, discussions and workshops contribute partly to this article.

[1] The interviews are listed in Appendix I.

1 Introduction

Since the early 1990s, the sustainable development and social responsibility of businesses or corporations have become increasingly an issue of concern. It was first initiated by the industrial countries in North America and Western Europe in response to rising consumers and civil society pressures.

The European Union defines Corporate Social Responsibility (CSR) as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” (European Commission, 2003: 7).

Many think CSR is simply social responsibility that every corporate member of a community and society should practice. Nowadays it is not enough for corporations to create and secure jobs, to provide products and services to society, and to pay taxes. More and more consumers show growing interest in making sure the products they purchase are produced in a socially and environmentally responsible manner. This puts business under pressure to make responsible and transparent efforts together with the government and the civil society to create a juster and more sustainable world (Kerby, 2001: 4). Companies recognize that addressing wider social and environmental problems is going to be crucial in securing long-term success (UNIDO, 2002: 1).

Many examples have shown that business success and social responsibility are compatible. Through socially and environmentally responsible business practices, corporations can achieve higher customers satisfaction and loyalty, retain more motivated staff, improve relations with the local community and public authorities, save costs, and enhance their reputation and good image (European Commission, 2003: 5).

CSR has become a worldwide demand to improve the social and environmental performance of TNCs and their affiliates and suppliers in developing countries. More and more concerns also involve SMEs, not only in developed countries, but also SMEs in developing countries; as suppliers, contractors and subcontractors to international companies and as recipients of development-aid programmes (UNIDO, 2002: 2). As the global economy is increasingly characterized by fiercer competition and

more demanding markets, SME suppliers in developing countries are expected to provide products at Third World prices to First World standards, not only with respect to quality standards, but more and more with respect to CSR standards, which are required by TNCs through their codes of conduct along their global value chains.

CSR is also under critical discussion and debate in China. Ever since it opened its doors to the outside world in 1978, China has been changing dramatically and dynamically. With the Chinese economy getting more and more involved in global competition, China has become a dominant party, both in its share of incoming foreign direct investment as well as of developing countries' manufactured exports (UNIDO, 2001: 51). However, China's rapid economic achievements also pose severe social and environmental challenges. Chinese labour standards, workers' rights and environmental protection have become popular topics in different international forums.[2]

It is inevitable that the business sector in China has to face the CSR issue. Especially the CSR of Chinese SMEs in the global value chains is under great concern of the international society. This is because TNCs that are served by Chinese SMEs are increasingly adopting CSR as their operating policy along the value chains. Complying with the CSR requirements is becoming a pre-condition for SMEs to do business with TNCs.

CSR is a big and complicated issue consisting of social aspects and environmental aspects. This article will only concentrate on the social aspects.

[2] In November 2002, the conference on Labour Relations and Corporate Social Responsibility under Globalization was held at the Renmin University in Beijing. This will be explained in more detail in section 4.3. On 30-31 March 2004, the Ethical Corporation conference on How to Manage Corporate Responsibility in China was held in London. Only half a year later, on 5-6 October 2004, the Ethical Corporation held another conference in New York on How to Make Corporate Responsibility Work in China. On 27-28 April 2005, Ethical Corporation held another conference in London on How to Manage Ethical Risk in China. On 21-22 April 2004 the International Conference on Corporate Social Responsibility in China was held in New York by the Columbia University (for more information:

http://www.ethicalcorp.com/china2004/, http://www.ethicalcorp.com/usa2004/, http://www.csreurope.org/events/howtomanageethicalriskinchina/, http://www.loita.com/news_archive280404.htm, all accessed 17/08/2005.

In section 2, the working conditions and living status of the migrant workers in the Pearl River Delta Region in southern China are analyzed in depth in order to identify the current situation of CSR of SMEs in China. The barriers and driving forces for Chinese SMEs to undertake CSR are investigated in section 3. The question of "how CSR of SMEs can be promoted in China" is addressed in section 4 with special focus on the possible actors and their approaches. The conclusion and policy recommendations in section 5 highlight ways to promote CSR among SMEs in China.

2 Current Economic and CSR Situation of SMEs in China

As the biggest developing country in the world, China has been the world's fastest growing economy for more than two decades and has become the key global manufacturing center for a wide range of products. China is seen as a new source of fortune and as an indispensable participant in the global economy. All these tremendous changes happening in China should be attributed to the economic system reforms and opening up policies that have been carried out since 1978. This also results in the sprouting and thriving of SMEs all over China, especially in the southern and eastern coastal areas. SMEs play an important role in reducing unemployment and are considered a vital driving force for the sustained development of the Chinese economy as the following discussion shows.

In 2002, a survey of the current economic development of Chinese SMEs was carried out jointly by the State Information Center and the China Entrepreneurs Survey System, the Development Research Center of the State Council (Ai, 2002). According to the survey statistics, by the end of 2001, there were altogether 29.3 million SMEs in China, employing 174 million people. SMEs provided around 75 percent of all job opportunities in cities and towns. The GDP achieved by SMEs was 50.5 percent of the total; the gross export value was over 60 percent of the total; and the taxes SMEs paid amounted to 43.2 percent of the total.[3]

[3] According to the China National Bureau of Statistics (2003), SMEs in China's industrial sector comprise enterprises with up to 2000 employees. Enterprises with 300 to 2,000 employees are medium-sized; with less than 300 employees

However, a limitation of this study is the data accountability in China. According to People's Daily Online (30/07/2002), the number of China's SMEs registered with the industrial and commercial administration by mid-2002 was only 8 million, accounting for 99 percent of the country's total registered businesses, with their gross industrial output value, sales income, taxes and profits, and gross export volume representing around 60 percent, 57 percent, 40 percent and 60 percent respectively of the national total, while providing around 75 percent of the job opportunities in cities and towns. Besides, SMEs are the main opening for workers laid-off from state-owned enterprises who re-enter the workforce (US Embassy-China, 2004).

A huge number of these SMEs work on the upstream end of the global value chains and do business with international corporations by providing parts and services. They mainly massed in the southern coastal areas of China, especially in the prosperous Pearl River Delta Region, where two out of the four Special Economic Zones (SEZ) are located.[4] The Pearl River Delta Region is seen as the heart of the global manufacturing center, where the export-oriented factories flock together and are geographically concentrated. SMEs in the SEZ mainly produce garments, shoes, toys, stationery, textiles, leather goods, foodstuffs, furniture, metal products, rubber, building materials and plastic products. These are the fields in which Chinese SMEs have comparative advantages because these industries are low-tech and labour-intensive (Yu, 2002: 4). A vast majority of these SMEs are contractors and sub-contractors of the factories run by Hong Kong, Korean or Taiwanese owners, or sub-contractors of TNCs.

The major labour force for the export-oriented and labour-intensive SMEs in the global value chain in the Pearl River Delta Region consists of migrant workers mainly from poor inland regions in rural areas. Their working conditions and living status reveals the situation of CSR in many

are small sized. In: http://www.stats.gov.cn/tjbz/qyhxbz/t20030528_80450.htm, accessed 09/12/2004.

[4] The four SEZs were set up in 1980. Shenzhen, Zhuhai and Shantou are in Guangdong Province; and Xiamen in Fujian Province. Shenzhen and Zhuhai SEZs form important part of the Pearl River Delta Region. SEZs are given special preferential policies and have special economic management systems, including more autonomy in management, low tax and tariffs, greater independence on foreign trade activities, special tax incentives for foreign investment, etc.

Chinese SMEs. The world situation shows how, according to Wick (2003: 21), during the past 30 years, the labour conditions for the majority of workers along supply chains have deteriorated - because of an increase of informal work in sweatshops and at home, as well as child labour and the extension of Economic Processing Zones in many parts of the world. China's workers face enormous hardships too (China Rights Forum, 2004: 93). According to China Labour Watch, China's manufacturing wealth is based on the "… enormous mental and physical sacrifice of young workers from rural areas" (Fong, 2004: B1). Many of them work very long days for very low wages in what are called 3D jobs, i.e. jobs that are dirty, dangerous and difficult. The following are the main problems the migrant workers face:

A. Excessive overtime: There is an institutionalized culture of working time violations in the low-tech, labour intensive export industry in China. Excessive overtime is a widespread and persistent problem and one of the most difficult issues to tackle in China (Murdoch & Gould, 2004: 18; Verité, 2004: 4). According to Verité, a US-based social auditing, research and training NGO, the reasons are "…systemic, with responsibility shared among brands, factories, governmental authorities and even consumers." (Verité News Release, 07/09/2004).

B. Low payment, unpaid or low overtime payment, and late payment of wages: According to Article 49 of the Labour Law of the People's Republic of China (1994), the minimum wage should be a living wage. However, in reality, the legal minimum wages are often too low to cover basic needs. In addition, failure to pay legal overtime rates is very common at factories in China (Verité, 2004: 16-17). The reasons for overdue wages are that the protection of the labourers' rights, especially those of migrant workers have been ignored. Moreover, there is no clear system to identify who is responsible when their wages are not paid and how those who are responsible should be sanctioned when the wages are not paid (Kuhn, 2004a, 2004b).

C. No or low social insurance and legal entitlement: According to the research report on "The Social Insurance Problems of Migrant Workers" carried out by the Ministry of Labour and Social Security in China, among the five social insurances (medical, unemployment, pension, work-place injury and maternity), work-place injury insurance is the only type that quite a number of migrant workers have. In general, only 15 percent of

the migrant workers have pension insurance, and about 10 percent have medical insurance. Most of the migrant workers still do not have unemployment or maternity insurances (Guo, 2005). Another market investigation shows that only 6 percent of migrant workers in the Guangdong Province have medical insurance now (Shi & Yang, 2005). The three main reasons are firstly, the factory and company managers are unwilling to pay the social insurance fees for migrant workers in order to keep the running costs low and to make as much profit as possible. Secondly, the rates for insurance are too high for migrant workers. Thirdly, migrant workers frequently relocate from place to place; the social security system is not yet sufficiently developed to provide a good insurance service for them (Guo, 2005).

Concerning other legal entitlement, many factories do not allow workers to take paid sick leave (Murdoch & Gould, 2004: 19; Verité, 2004: 16). The workers' annual leave is also unpaid.

D. Serious health and safety risks at the workplace: Health and safety standards in factories can be very poor and working conditions can be very dangerous. In the Pearl River Delta Region, every year more than 40,000 fingers of the workers are cut off in accidents with machines. The reasons for the high rate of workplace injuries are mainly due to the use of dangerous or timeworn machinery, the lack or absence of safety and security measures, lack of personal protective equipment, fatigue caused by extremely excessive overtime, and inadequate job training for workers to operate the machinery safely (Murdoch & Gould, 2004: 19; Cheng, He & Dong, 2005). Workers also face common workplace hazards and unhealthy working conditions, such as inadequate ventilation, toxic glues, poisonous chemicals, noise pollution, high temperatures, etc (China Rights Forum, 2004: 94, 96).

E. Lack of freedom of association: According to Article 35 of the Constitution of the People's Republic of China (2004), all citizens are entitled to enjoy freedom of assembly, association, procession and of demonstration. Nevertheless, in fact there is only one officially mandated trade union, the All-China Federation of Trade Unions (ACFTU), which is a subsidiary body of the Communist Party and is meant to strengthen the power of the party and the state. New unions cannot be formed without the approval of ACFTU (Ascoly & Zeldenrust, 2003: 7). Although it is illegal to form independent trade unions, the government issued the

Trade Union Law in 2001. Article 9 allows the formation of worker committees, which can bring issues such as workplace health and safety to the attention of the management, ACFTU representatives and parent companies. But still, the ACFTU is severely restricted in its ability to represent workers' interests, because it is not an independent union and remains under the control of the Communist Party (China Rights Forum, 2004: 95).

F. Discriminatory treatment: In many exporting factories, migrant workers have to pay a large sum of money as a deposit to their employers as well a recruitment fee in order to be hired. Moreover, their identification cards are taken away by their employers before they are permitted to work. These practices often prevent workers from leaving jobs when their rights are violated (Rosoff, undated). The improper deduction of wages is common, such as fines for being late, for absence without notice, for forgetting to turn off electricity, for not wearing the factory ID properly, and for other small infractions (China Rights Forum, 2004: 94).

In addition, other problems facing the workers include physical abuse, no contracts, etc. In toy factories as well as other export-oriented and labour-intensive supply factories, exploitation is common and has been intensified as a result of tough competition among factories for contracts with multinational corporations (ibid, 2004: 97).

As a consequence of the inhumane working conditions and the poor living standard as well as due to a recent increase of agricultural subsidies by the government and the increase in grain prices, the Pearl River Delta Region and other coastal areas are now facing a severe shortage of migrant workers and technical labour. According to the "Research Report on Shortage of Migrant Workers" issued by the Ministry of Labour and Social Security in September 2004, the Pearl River Delta Region, where most of the 19 million migrant workers in Guangdong Province are concentrated, is short of an estimated 2 million workers. Alone in the city of Shenzhen, there are 4.2 million migrant workers but the shortage is still about 400,000 (MOLSS, 2004).

The working conditions and living status of migrant workers show that many SME suppliers neglect the requirement of laws and regulations and

are not yet conscious of the corporate social responsibility they should shoulder.

3 Barriers and Driving Forces for Chinese SMEs to Undertake CSR

Generally speaking, according to the UNIDO (2002: viii), the possible barriers preventing southern SMEs in developing countries for improving their social and environmental responsibilities are lack of access to technology, environmentally friendly materials, credit, information, training and lack of valuable direct relationships with northern consumers in industrialized countries. What are the concrete barriers and driving forces for Chinese SMEs to undertake CSR? Unless otherwise indicated, the barriers and driving forces analyzed herewith are based upon the IED/LEAD-China (2004) report "Driving Forces of CSR in China" and the CSR articles published in the Think Tank[5] (November 2004). The economic, political, knowledgeable and perceptional barriers are summarized jointly by the author and the staff of the UNIDO Field Office in Beijing; the author has made some modifications and added some supplements in this article.

3.1 Barriers

3.1.1 Economic Barriers

- The present supply chain business model in China is based on the short-term relationship between buyers and suppliers, which actually forces suppliers to think short-term due to huge pressures affecting them in terms of price, quality and delivery time. On the contrary, CSR investments in social and environmental performance are long term. Suppliers see CSR as a burden, which costs extra time, money and energy but does not help to obtain or keep contracts with buyers or to make more profits.

[5] Think Tank or KE JI ZHI NANG in Chinese is a monthly magazine focusing on the enterprises management. It is based in Beijing.

- So far, CSR initiatives in China are mainly implemented by TNCs in a top-down manner through their supply chains and codes of conduct. But many suppliers have difficulty in sustaining improvements in areas such as labour standards. The reason is that the costs of compliance are only borne by the suppliers and not shared between buyers and suppliers. The competition among SME suppliers has become tougher and tougher and TNCs have been conducting a race-to-the-bottom pricing strategy. Moreover, the suppliers are often under pressure to meet delivery times set by the buyers (UNRISD, 2003: 2-4).

- The multitude of codes of conduct among buyers leads to confusion and prevents the full implementation of social and environmental standards at the level of the individual supplier. This is a popular phenomenon in the global supply chain.

3.1.2 Political Barriers

- Local governments lack incentives to implement and enforce central laws which require the close monitoring of enterprises' lawful behaviour such as compliance with the labour law, workplace safety, environmental performance, etc. Government officials are very interested in attracting foreign investments so that they are to some extent willing to exempt multinational corporations from government regulations in several areas, including taxation, and the environmental and labour standards. The reason is that it is easier for them to get promoted by short-term economic successes than by long-term environmental and social commitments.

- There is a lack of policy frameworks and incentives needed to encourage and enable enterprises to implement CSR measures.

- It is not clear which different roles and responsibilities government and businesses should play in the implementation of CSR strategies.

- CSR is seen by the Chinese government as bringing with it concepts of Western democracy and human rights principles, such as freedom of association and the right of collective bargaining. These principles are not in line with the existing legal and political systems. As already explained before, it is illegal to form independent trade unions in China.

3.1.3 Barriers Caused by Knowledge Gaps and Wrong Perceptions

- The knowledge about CSR is still very limited and there are misconceptions in the sense that CSR is often seen as a foreign concept, another trade barrier and a certification process (for example, the Social Accountability International Standard SA8000). Chinese suppliers also see CSR as a slogan and question whether buyers are truly committed to implementing sustainable CSR practices in China, as such approaches may be more costly and time-consuming.

- The CSR concept has not yet been incorporated into the curriculum of Chinese business schools, which means the future business leaders of China are not yet well informed about the CSR concept.

- TNCs and many foreign companies have integrated CSR into their business culture; this has not yet happened in many Chinese companies. When NGOs talk about CSR to them, they simply think NGOs want money from them.[6]

3.2 Driving Forces

3.2.1 Pressure from Global Competition

- More and more companies worldwide are realizing that they have to become socially responsible in order to stay productive and

[6] Interview with Li Jing, Program Manager, Project Management Department, China Association for NGO Cooperation, in Beijing on 7 March 2005.

competitive. If Chinese companies intend to become or remain competitive in their respective market segments, they increasingly have to adapt their modes of production to standards required by CSR.

- Globalization and China's entry into the World Trade Organization (WTO) bring not only chances but also challenges and pressure to SMEs in China. They have to face fierce competition from companies and enterprises from other developing countries with low labour costs (Yu, 2002: 4). Whether a company behaves in a socially and environmentally responsible way is attracting more and more attention. Competitors engaging in CSR can be a driving force for companies to develop their own CSR policies.

- Since 2005, China's apparel export quotas under the WTO Multi-Fibre Arrangement are phased out. As a result, China's apparel exports have been increasing significantly. In the first seven months of the year 2005, China's exports of textile increased by 20 percent; the exports of apparels increased by nearly 23 percent (CCPIT & CCOIC Representative Office in Italy News Release, 28/10/2005). It is assumed that the phasing-out will be accompanied not only by a large portion of apparel production moving to China, but also by a large portion of jobs moving to China and leaving workers in other countries to face job loss and economic depression. Consequently, there will be certainly closer scrutiny of China's labour standards and practices (Quan, 2003: 62-65). SMEs cannot avoid this close surveillance.

- Investing and outsourcing TNCs are increasingly seeking reliable suppliers that comply with the codes of conduct of their supply chains (UNIDO, 2002: 3). Many of those who source products from China, try to make sure that their partners conduct themselves in a socially responsible way and have required their supplier factories to be certified by independent bodies and auditing NGOs as meeting basic international labour and environmental standards. Many SMEs have realized that they might lose orders and then access to markets in Western countries if they cannot get CSR accreditation such as SA8000

or if their production procedures are not in line with the codes of conduct their buyers expect.

3.2.2 Incentives to Implement CSR

- It is well known that China is going to host the 2008 Olympic Games. This will certainly have a positive influence on Chinese companies and SME suppliers since TNC buyers act as Olympic sponsors, who have to take an active role in making sure that their Olympic-related products are produced in factories where workers' rights and labour standards are respected and followed and where environmental protection measures are taken (China Rights Forum, 2004: 97). These needs make room for CSR initiatives and activities so that SME suppliers with a good image will get more orders and contracts.

- According to the Institute of Contemporary Observation (a labour rights NGO in China, which will be introduced later), the best way to persuade business to undertake CSR is to let them know about the advantages and benefits they will get through CSR activities.[7] Some other CSR activists also think the key driver of CSR is enlightened self-interest, which can be achieved through raising awareness among company managers and owners about the potential benefits of CSR in terms of profitability, productivity and competitive advantage (Utting, 2003).

- CSR helps companies to establish and maintain a good reputation and image, which positively influences their competitiveness.

3.2.3 Pressure from Workers

- Some migrant workers are slowly but surely realizing that they have been treated unfair and even inhumane. Workers are becoming aware that they should protect themselves and stick up for the legal rights they are entitled to. In recent years, the

[7] Email discussion with Mr. Liu Kaiming, the founder and executive director of the Institute of Contemporary Observation, in March 2005.

number of lawsuits filed by migrant workers against their employers over labour violations has been increasing dramatically. Many managers also recognize that they should treat workers more justly and fairer and need to promote health and safety standards at the workplace in order to protect and build their reputation and enhance brand image as well as to keep trained labour.

- The government has realized that the social injustice against migrant workers might bring social instability and rebellion. Therefore, improved conditions for migrant workers are seen as a way of protecting the government against social unrest (Murdoch & Gould, 2004: 10-11).

3.2.4 Policy Factors

Laws and regulations are important factors in driving CSR forward, as it is the basic requirement of companies' legal existence to be in compliance with all applicable laws and regulation. The government is expected to enforce laws concerning social and environmental matters more fully and effectively. International organizations are expected to set international standards focusing on the development of more effective and sustainable means of application.

4 Actors and Approaches towards Promoting CSR among SMEs in China

There are many actors driving CSR forward: TNCs, international organizations, governments and civil society organizations (CSOs), such as NGOs, the media, and academic and research institutions. Their approaches and functions are different but are interrelated and interacted.

Some CSR initiatives involve two or more actors, for example, international organizations, business and NGOs. They endeavour to improve the social and environmental performance of companies through joint design and implementation of standards and instruments. This normally involves codes of conduct, monitoring, verification, reporting and

certification. The Ethical Trading Initiative (ETI), the Workers Rights Consortium and the Fair Labor Association are the well-known representatives of this kind of multi-stakeholder organizations active in the CSR field. Other CSR institutions that operate internationally include Clean Clothes Campaign, Global Reporting Initiative, AcountAbility (AA1000), Social Accountability International (SA8000), Worldwide Responsible Apparel Production, the Global Compact, and the Global Alliance for Workers and Communities (Utting, 2003).

4.1 Approaches of TNCs

International relocations and worldwide sourcing have enabled TNCs to profit from international competition between low-cost production sites (Wick, 2003: 11). Since TNCs have been making large fortunes in the globalized economy, they should, from an ethical point of view, take responsibility for the workers in their supply chains (Xu, 2004). Since global competition is very intense, any damage of the reputation and image of a TNC can easily result in economic losses (Wick, 2003: 24). Thus, many TNCs have made their own codes of conduct and established internal and/or external programmes for monitoring their contractors and suppliers. In order to ensure that the compliance with stringent codes of conducts is economically viable for their suppliers, it may be necessary for TNCs to provide some incentives and support (UNIDO, 2002: ix). When socially responsible TNCs require and assist their suppliers in implementing CSR activities and practices, the suppliers can gradually learn how to operate efficiently in a more sustainable and humane manner.

Since 1995, more than 35,000 factories in China, most of which are SMEs in the coastal areas, have received audits of TNCs. Some have received more orders after audits because of their good performance and some are revoked as suppliers due to their unwillingness to improve (Li, Youhuan, 2004: 202, 246). However, many TNC relocate to China because they can produce cheap and do not have to comply with strict standards.

4.2 Approaches of International Organizations

International organizations have important roles to play in strengthening CSR implementation in global supply chains. Together with governments, international organizations can mandate, facilitate, partner and endorse various initiatives and efforts (World Bank, 2003: 56). Quite a number of international organizations have been working on issues of social and environmental responsibility on a global level. Kerby (2001: 6) highlights and classifies them as a) Work in developing principles and guidelines (The Global Compact, the Organization for Economic Cooperation and Development Guidelines for Multinational Enterprises); b) Accounting and reporting (Global Reporting Initiative); c) Human rights (Sullivan Principles, the International Labour Organization and the United Nations Development Programme); d) Cross-sector partnerships (World Bank Business as a partner in development models); and e) Environmental protection (World Business Council on Sustainable Development's Eco-Efficiency Performance Platform works in the area of indicators and reporting; the United Nations Environmental Programme's preparation for the 10th anniversary of the Agenda 21). In the following sections, the approaches and roles of the Global Compact and the UNIDO in strengthening CSR among SMEs in China are discussed.

The Global Compact was initiated by the United Nations (UN) Secretary-General Kofi Annan at the World Economic Forum in January 1999 and was formally established in 2000. With the aim of making globalization more stable, more sustainable and more inclusive, the Global Compact calls upon business leaders to enhance their commitment towards the public and asks companies to embrace, support and enact the 10 internationally agreed principles in the areas of human rights, labour standards, the environment and anti-corruption.[8]

The Global Compact is not a regulatory instrument; participation is completely on a voluntary basis. It is a network involving all relevant social actors: governments, companies, labour, CSOs, and the United Nations as an authoritative convener and facilitator.

Initiated as a partnership between the UN and big businesses, the Global Compact now also includes a number of SMEs and has started a programme of outreach to SMEs. Today, the Global Compact

[8] Available at www.ungobalcompact.com, accessed 20/04/2005.

encompasses about 25 percent SME membership (UNIDO, 2002: 35; Luetkenhorst, 2004: 10). As of May 2005, there were more than 2,000 companies from all over the world having participated in the Global Compact, of which only 48 were from China. Currently, there are over 40 Global Compact networks in the world at a country or regional level.

On 11 October 2004, Mr. Annan had a meeting with Chinese business leaders in Beijing, seeking support for the Global Compact on shared values and practices. At the meeting, Mr. Annan called on all Chinese companies - small, medium-sized and large - to support the Global Compact through a formal commitment to its principles, and to honour and implement those principles in all their business activities. According to the UN Secretary-General, in return, the Global Compact can bring clear benefits to Chinese companies, such as helping them to demonstrate their commitment to responsible corporate citizenship, making them more attractive in the global market place and enhancing their corporate and brand reputations in the eyes of global stakeholders, including investors and consumers. Furthermore, the Global Compact can also complement China's business and industrial associations and can help to motivate Chinese workers. In a broader sense, the Global Compact can serve as a platform that helps China to pursue economic growth and global competitiveness while advancing environmental and social responsibility (UN Press Release, 11/10/2004).

Another result of this meeting was the preliminary approval of the suggestion that China hosts a major international event in 2005. This event, the "Global Compact Summit: China, Building Alliances for a Sustainable Global Economy", was held in Shanghai from 30 November to 1 December 2005, with the support of the Chinese government and in collaboration with UNIDO and other five organizations.[9] About 500 business leaders, policy-makers and civil society representatives from all over the world took part in this largest ever high-level CSR conference in China, making the concept of CSR more familiar to and better understood by business circles and the general public in China.

[9] Namely, the China Society for the Promotion of the Guangcai Programme, the state-owned Asset Supervision and Administration Commission, the All China Federation of Industry & Commerce, the China Enterprise Confederation, and the Foundation for Globalization Cooperation.

Since UNIDO has many years of experience in supporting the development of SMEs in developing countries and countries with economies in transition, it has an important role to play in facilitating the development of TNC-SME relations towards promoting economic prosperity while improving their social and environmental performance (UNIDO, 2002: ix, 4).

In 2002, the SME Branch of UNIDO initiated a study on “Corporate Social Responsibility – Implications for Small and Medium Enterprises in Developing Countries”. This study made a strategic analysis of the current state and future direction of CSR globally, the implications of CSR for SME development, strategies to support SMEs in response to the demands of CSR, and CSR approaches that support the role of small businesses in development (ibid: 4).

There are two programmes developed and used by UNIDO. The first one is the “Business Partnership Programme”, which works together with the private sector, mainly TNCs, as well as business representative organizations, research institutions and NGOs, to establish business linkages and to stimulate the transfer of technology (especially environmental-friendly and energy-saving technology). Like this, the programme contributes to the development of SMEs and their involvement in the globalized economy. The “Business Partnership Programme” is directly related to CSR since it aims at helping SMEs in developing countries to meet the raising demands of quality, productivity, and social and environmental responsibility. The second UNIDO programme in this respect is the “Supply Chain Development Programme”, which is complementary to the activities of the first programme. It also designs and implements SME upgrading instruments but focuses more on the integration of lower-tier SMEs in the global value chain. This programme is also directly related to CSR. The tools and methodologies of the “Code of conduct for industrial subcontracting, supply and partnership relations” and the “Guide to supplier development”, which were developed under this programme, help suppliers and TNCs to do business in an efficient and socially responsible way, mainly through the establishment of Subcontracting and Partnership Exchanges (SPX) Centers and networks of SPX Centers. The first SPX center in China was created in Chongqing in 2003, another one is in

Beijing. It is planned to set up a network of SPX centers throughout China (Luetkenhorst, 2004: 9).[10]

4.3 Approaches of Government

There also remains a very important role for government policy in encouraging a greater sense of CSR, in establishing a framework to ensure that businesses integrate environmental and social considerations into their activities as well as in stimulating the exchange of CSR experience and good practices among companies and in extending knowledge and providing incentives and support (UNIDO, 2002: 1; European Commission, 2003: 6). In addition, good public sector governance itself can help SMEs to benefit from transparent rules and reduced corruption (Luetkenhorst, 2004: 18).

At the World Summit on Sustainable Development in Johannesburg in September 2002, governments committed themselves to actively promoting corporate responsibility and accountability. Also the Chinese government is showing increased willingness to encourage CSR. The commitment and support of the Chinese government to collaborate with the UN Global Compact to hold its China Summit in Shanghai at the end of 2005 gives clear evidence. A number of other conferences on CSR were held in China in recent years, creating rising awareness of the concept of CSR in China.

In November 2002, the conference on “Labour Relations and Corporate Social Responsibility under Globalization” was held at the Renmin University, Beijing. Issues related to CSR, notably working conditions and labour relations, were discussed. The participants were both, from home and abroad. Chinese organizations like the China Enterprise Confederation, the Institute for Contemporary Observation and several academic institutions were present. Representatives of global corporations and anti-sweatshop activists as well as the heads of major multi-stakeholder organizations, such as the Ethical Trading Initiative, the Workers Rights Consortium and the Fair Labour Association were also present. Other important participants were consultancy and auditing

[10] Another source is an internal working paper prepared in 2005 by the UNIDO Field Office in Beijing: “Corporate Social Responsibility and the Value Chain in China. Creating Business Partnerships for Sustainable Development. Position Paper”. The author participated in the preparation of this working paper.

companies and auditing NGOs, such as SGS, Impactt, and Verité. Also, several US and European research centres and the United Nations Research Institute for Social Development were present (Utting, 2003).

On 26 January 2005, the author took part in the “Workshop on Scientific Development and CSR of TNCs in China” & “Releasing Conference on Report of TNCs in China 2005”, which were held together in Beijing, organized by the Research Institute for International Trade and Economic Cooperation of the Ministry of Commerce of China. This was a joint conference of political, academic and business circles to discuss CSR of TNCs in China. The conclusion of this workshop was that it might be difficult to get Chinese enterprises to carry out good CSR at once. It should be done step by step. Recommendations were that the government, businesses, academics and media should work together to promote CSR in China. TNCs should set good examples for SMEs and give workshops and courses on CSR tools and practices and the government should provide training courses for enterprises. However, these recommendations were given only in general without detailed explanation.

It is effective when government departments work together with TNCs to promote CSR. Nevertheless, CSR is not a replacement for the rightful role of governments to set regulatory frameworks (UNIDO, 2002: vii). Thus, the government’s role in enforcing the labour law and environment law cannot be substituted by TNC’s efforts to monitor the compliance of the suppliers and contractors with their codes of conduct (Quan, 2003: 63). In general, many standards in China’s labour law such as working hours, overtime premiums, wages and child labour are set very high; not even one code of conduct of the TNCs has exceeded it. In theory, China’s law provides a high level of protection for workers; but in practice it tends to be poorly implemented. Many migrant workers do not even know they have the rights entitled to them by the law. Furthermore, the government’s system for monitoring and enforcing the laws and regulations, such as the Labour Law, the Operational Health and Safety Law, and the Worker Injury Law is poor. As a result, many factories are hesitant and not willing to comply with these laws because they think it will make them less competitive compared to those factories that do not comply (Murdoch & Gould, 2004: 17, 28). Therefore, strengthening the enforcement and the implementation of labour laws is one key area

where the government can encourage and facilitate CSR activities of businesses in China.

China's political culture has decided that support from the government is important for successful CSR implementation. There is some evidence to be optimistic. Since the end of 2003, there have been signs that the longstanding problem of defaulting payments for migrant workers may be solved. Things were triggered off by a country woman, Xiong Deming, who complained to Premier Wen Jiabao during his visit to her village that her husband worked in a local construction site for one year but had not been paid. Her husband was paid in the evening of the same day. Premier Wen's actions aroused strong responses immediately, making back pay for migrant workers an important issue across the society. Governments at all levels issued relevant regulations and measures to stop default payment. For example, in Beijing, construction companies were ordered to pay all wages owed before the Spring Festival of 2004, which was on January 22, otherwise they would be banned from operating in the local construction market. In addition, the construction committee in Beijing required that labour contracts are signed between employers and migrant workers. Other cities and provinces also issued their own policies and measures. Between November 2003 and February 2004, more than 24 billion Yuan (2.9 billion US Dollars) of defaulted payment were paid to migrant workers, which were about 24 percent of all due payments for migrant workers in the year 2003 (Li, Xin, 2004).

Other relevant government measures include for example one set by the Ministry of Labour and Social Security that minimum wages should be adjusted at least once every two years so as to protect workers' legal interests. Hopefully, these regulations, policies and measures can be successfully implemented, thus creating an enabling environment for CSR activities to be carried out.

4.4 Public-Private Partnership as an Approach: The Example of the Guangcai Programme

Due to different cultural and historical circumstances, CSR is viewed differently allover the world. Therefore, solutions should be locally specific and culturally sensitive (Petkoski & Twose, 2003: 7). In China, CSR in the broader sense can be linked together with sustainable development and poverty alleviation. The Guangcai Programme is a good example. It is

based on the traditional Chinese virtues: people who have the possibility should promote education, build bridges and roads, and aid the most vulnerable.

The Guangcai Programme, meaning it is a glorious and lofty cause for people to undertake, was initiated by 10 successful private entrepreneurs in 1994 in order to respond and implement the "State's 8-7 Poverty Alleviation Programme - Helping Eighty Million People in Seven Years". Its spirit is a) to help those in distress and aid those in peril; b) to help the poor to eliminate poverty and to become well-off; c) to pay attention not only to the profits and benefits of the company but also to one's moral and responsibilities toward society; and d) to develop enterprises and, at the same time, to make contributions to the society. It is an investment practice and enterprise behavior on a voluntary basis. The programme does not give money to the poor directly but assists them in getting a job. This in turn enables the poor to keep their dignity.

The Guangcai Programme shares the values, goals and spirit of the UN Global Compact in many ways, as demonstrated in the statements made during various conferences. One conference was held by the China Society for the Promotion of the Guangcai Programme (CSPGP) in Xi'an, China, in October 2002. The topic was "The Guangcai Programme and the Global Compact", advocating the social responsibility of the Guangcai Programme.

On 11 October 2004, a symposium on "Entrepreneurs' Social Responsibility and the Global Compact" and on public-private partnership was held in Beijing, attended by the UN Secretary-General Kofi Annan and representatives of Chinese private entrepreneurs. Mr. Yin Mingshan, the Director of Chongqing Lifan Industrial Group, expressed his understanding of the Global Compact and CSR in a statement, which also represents the attitudes of the other entrepreneurs participating in the Symposium: "We would like to join the Global Compact and abide by the 10 Principles. We think that the Principles of the Global Compact concerning human rights, labour conditions and environmental protection are not an extra burden for us; on the contrary, they are in line with the requirements of the laws and regulations, the social behaviour standards and the traditional morals of China. To respect human rights, to secure workers' rights and benefits, to improve and protect the environment, are the social responsibilities the Chinese private entrepreneurs have to,

should and are willing to shoulder." (CPPCC Newspaper News Release, 15/10/2004)

During an interview with the author in Beijing in 2005, Mr. Sun Gongling, the Vice Secretary-General of the CSPGP, expressed the view that the CSPGP basically agrees with the concept of the Global Compact and will encourage enterprises to join it. However, he added "we will continue to encourage companies to shoulder the social responsibility in our own way, not simply copy the perception of the Global Compact."

4.5 Role of Civil Society

The driving forces of CSR are consumer and civil society pressure. Organized civil society has been the main force in advocating CSR and sustainable development initiatives (Young, 2004: 299). Diversified CSOs, such as NGOs, trade unions, foundations, academic bodies, research institutions and the media, have been working to promote CSR in industrialized and developing countries.

As one of the important forces of civil society, NGOs, especially those working in the fields of labour rights, human rights and environmental protection, have established a partnership with businesses in order to pursue the sustainable development of the society mainly through monitoring and promoting CSR. According to the Global Village of Beijing, one of the first NGOs in China focusing on environmental education and civil society strengthening, some TNCs have taken the initiative to approach them and offer them cooperation on the CSR issue regarding the monitoring of environmental aspects of partner companies or suppliers.[11]

At the World Summit on Sustainable Development in Johannesburg in 2002, many international NGOs petitioned for binding international regulations to monitor the activities of TNCs so as to ensure that TNC activities do not undermine social, environmental and human rights (Abrahams, 2004: 1). The CSR of Chinese enterprises was also the concern of some international and local NGOs. Due to the political culture in China, there are many more local NGOs dealing with environmental

[11] Interview with Ms. Sheri Liao, the founder and president of the Global Village of Beijing, in Beijing on 2 March 2005.

issues than with labour rights. The Institute of Contemporary Observation (ICO) is China's first and most outstanding NGO focusing on labour rights.[12] Established in March 2001 and based in Shenzhen, ICO seeks to benefit migrant workers through working closely with international organizations, TNCs, local communities, and local factories producing for international markets mostly along the southeastern coastal areas of China. ICO dedicates itself to labour development and corporate social responsibility promotion through research, training, verification and auditing. ICO provides training programmes for SMEs in international labour standards and supply chain management. The training contents include CSR, labour law, factory regulatory systems, occupational health and safety, and communication between workers and management. In order to increase workers' self-awareness and develop their capacity for self-development, ICO, together with the University of California at Berkeley, established the Migrant Workers' Community College in Shenzhen in March 2004. Workers are given the chance to continue their education and to seek career advancement. The College offers migrant workers free public education courses in legal awareness, occupational health and safety, HIV/AIDS prevention, interpersonal communication, urban living, computer skills, English and even cooking.

In addition to NGOs, the media is indispensable in advocating and promoting CSR in society. Media exposure can cause companies with bad CSR practice to be under great consumer pressures, which can be a driving force to promote CSR. In China, the media is under the control of the government and has the authority to act as the voice of the government. Therefore, its capacity to advocate and promote CSR can be fully brought into play when the government creates a good enabling environment for CSR development. Recent years have seen an increase in CSR articles and reports in the Chinese media.

As another energetic composition of the civil society, university students are the initiators of many advocacies and movements towards social

[12] The information about ICO is based on its website www.ico-china.org as well as the following documents sent by Mr. Liu Kaiming, the founder and executive director of the Institute of Contemporary Observation: "ICO in 2004: A Summary Report", "ICO Introduction", and "The Winds of Change" (an article written by Rose Tang and published in the Hong Kong newspaper Standard on 24 July, 2004. This article reported ICO's contributions to workers training and CSR promoting.)

improvement and advancement. They are also at the very front line of CSR campaigning. Partly attributed to their efforts against sweatshops, Levi Strauss & Co became the first TNC to establish codes of conducts in 1991.[13] Still, the university students in China lag far behind international students in terms of CSR activities. CSR is still relatively unknown to many business students in China. Nonetheless, their awareness has been raised recently. In November 2004, AIESEC (International Association of Students in Economics and Management, the international platform for young people to discover and develop their potential) started its CSR drive in mainland China. On 25 January 2005, AIESEC's "Leadership for Sustainability Conference" was held in Beijing with the participation of about 150 students from eight top universities in Beijing, Shanghai and Tianjin. The one-day conference was followed by a two-hour "Open Forum on Leadership for Sustainability" in the evening. Sustainability and CSR were the main topics of both, the conference and the forum. The author took part in the forum and observed that many students, after having attended the one-day conference, understood CSR as a philosophy, a belief, and an attitude towards life that can be implemented not only by companies but also by each and every individual. AIESEC planned to have more CSR activities in China in the future.

In addition, the role of consumers in promoting CSR cannot be ignored. They cannot only send strong messages and influence companies by their spending habits, but they can also reject and boycott products from companies that are not seen as being socially responsible. Generally speaking, consumers in industrialized countries have a higher level of environmental and social awareness than consumers in developing countries in the sense that they care more about responsible business practices. Accordingly, companies, especially TNCs, have to take the behaviour of consumers into account and win their trust and loyalty.

So far a consumer movement does not exist in China. Consumers pay more attention to whether the commodity is cheap than to how and where it has been produced. However, with increasing wealth, consumers' awareness might rises and they might learn to change their spending

[13] The code of conduct of Levi Strauss & Co. is called Global Sourcing and Operating Guidelines, which is comprised of two parts — The Country Assessment Guidelines and the Business Partner Terms of Engagement. In: http://www.levistrauss.com/responsibility/toe/, accessed 03/08/2005.

habits or to boycott companies in order to influence production practices (Xu, 2004).

5 Conclusion and Policy Recommendations

Fierce competition, TNCs' race-to-the-bottom pricing strategy, the desire to make as much profit as possible without respecting the social and environmental aspects of society, loose control and insufficient law enforcement, not enough advocacy and monitoring activities of NGOs, and a low awareness of CSR… All these factors combined together have lead to the fact that many Chinese SMEs suppliers in the global value chains tend to ignore workers' rights and labour standards and only acquire short-term economic benefits. Nevertheless, they are facing more and more requirements to become socially and environmentally responsible in their business practices. This demand and pressure come primarily from the TNCs they are supplying. SMEs' compliance with the codes of conduct of TNCs has increasingly become one of the preconditions to get orders and contracts either directly from TNCs or from TNCs' business partners. Comparing the pressure TNCs put on SMEs to comply with CSR, other pressures, such as the ones from migrant workers, NGOs or the government, are rather weak. However, also these pressures show a rising trend. The top-down approach of TNCs to suppliers is, and will remain in a foreseen future, the most effective way to promote CSR behaviours among SME suppliers in China. At present, there are only few SME suppliers that have implemented CSR practices. Also, CSR activities were mainly implemented out of the fear of losing orders from TNCs and not due to the recognition of the importance of the CSR concept for China's development.

In order to involve more SMEs to shoulder the social responsibility, the joint efforts and contributions from both, international and domestic actors are needed: from the government, businesses and the civil society. More specifically: International organizations' mandate can facilitate, partner and endorse various initiatives and efforts. The government should greatly strengthen the enforcement of laws and regulations and issue encouraging policies for the promotion of CSR so as to create an enabling environment for responsible business behaviour. This is

essential and vital and can be a very effective way to promote CSR among Chinese enterprises of different sizes. Companies will have to act according to the law and behave more socially and environmentally responsible once they know that the laws and regulations are strictly implemented. In addition, TNCs continue requiring the SME suppliers to comply with their codes of conduct. NGOs promote CSR through advocacy, education and training programs for both management and workforce, and by carrying out independent monitoring and social audits. Consumers could also learn to use their purchasing patterns to support CSR practice through consumer awareness campaigns from CSOs. The media plays an important role in involving publicizing CSR concepts and good practice; and academics carry out research for SMEs on how to practice CSR. When pressures and incentives become joint forces, we have reason to foresee that, sooner or later, Chinese supplier SMEs in the global value chains will behave more socially responsible. Now the long march has just started. There is still a long way to go and much remains to be done.

Appendix I: List of interviews

02.03.2005: Interview with Ms. Sheri Liao, the founder and president of Global Village of Beijing, Beijing.

07.03.2005: Interview with Li Jing, Program Manager, Project Management Department, China Association for NGO Cooperation, Beijing.

March 2005: Email discussion with Mr. Liu Kaiming, the founder and executive director of the Institute of Contemporary Observation.

15.03.2005: Interview with Mr. Feng Xingyuan, Associate Professor, Rural Development Institute, Chinese Academy of Social Sciences, Beijing.

16.03.2005: Interview with Mr. Sun Gongling, the Vice Secretary-General of the China Society for the Promotion of the Guangcai Program, Beijing.

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