China’s State-Centric Approach to Corporate Social Responsibility (CSR) Abroad: A Case Study in Africa

by

Bingyu Liu

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY in THE FACULTY OF GRADUATE AND POSTDOCTORAL STUDIES (Law)

THE UNIVERSITY OF BRITISH COLUMBIA (Vancouver)

March 2019

© Bingyu Liu, 2019
The following individuals certify that they have read, and recommend to the Faculty of Graduate and Postdoctoral Studies for acceptance, the dissertation entitled:

China’s State-Centric Approach to Corporate Social Responsibility (CSR) Abroad: A Case Study in Africa

submitted by  Bingyu Liu

in partial fulfillment of the requirements for

the degree of  Doctor of Philosophy

in  Law

Examination Committee:

Li-Wen Lin
Supervisor
Pitman Potter
Supervisory Committee Member
Timothy Cheek
Supervisory Committee Member
Paul Evans
University Examiner
Stepan Wood
University Examiner

Additional Supervisory Committee Members:

Supervisory Committee Member

Supervisory Committee Member
Abstract

Corporate social responsibility (CSR) is conventionally understood as voluntary and market-based corporate behavior without direct involvement of government. The CSR development in China is challenging this typical understanding. Over the past decade, China has demonstrated a state-centric approach in promoting CSR. It may be understood as a complementary regulatory approach to address the limitations of a fully market-based CSR model. While existing studies have already noticed the state-led approach to CSR in China, they only focus on its application in advancing Chinese domestic CSR practices. With the rise of Chinese companies’ overseas investment under China’s “One Belt, One Road” (OBOR) Initiative, it is important to examine how the state-centric approach applies to Chinese companies’ overseas CSR. This is an urgent issue given that China’s foreign investment is significantly concentrated in countries where legal and regulatory institutions are weak to protect social and environmental justice.

This dissertation aims to fill this literature gap through an examination of China’s CSR policy development and a Chinese state-owned enterprise (SOE)’s infrastructure project in Africa. It firstly provides an overview of the various measures adopted by the Chinese government and its affiliated institutions including SOEs and state-owned banks in promoting CSR. It uses qualitative and quantitative methods to analyze relevant legal documents published by the Chinese government, Chinese companies and financial institutions between 2007 and 2017. The analysis provides a legal framework of how existing Chinese policies and guidelines may shape Chinese companies’ social and environmental behavior overseas. Secondly, it gives a close look at China’s CSR development in Africa, the major investment destination of the OBOR Initiative. It also gives an in-depth analysis of the Standard Gauge Railway (SGR) project in Kenya. The findings are based on in-depth interviews, an extensive review of publicly available documents, and field visits to project sites between September 2016 and February 2017. Thirdly, through the policy analysis and the empirical case study, the dissertation analyzes the strengths and limitations of the state-centric approach in advancing Chinese companies’ overseas CSR. It also recommends how to improve China’s state-centric approach when applied abroad.
Lay Summary

This dissertation examines the strengths and limitations of the state-centric approach in promoting CSR of Chinese companies overseas. Through an in-depth analysis of the Chinese government’s CSR policies and an empirical study of the SGR project in Kenya, this dissertation shows that the Chinese government uses a range of methods to make Chinese companies and financial institutions engage in socially responsible business practices overseas. This dissertation also argues that this Chinese state-centric approach has important constraints on CSR development, including the restriction of the space for civil society leadership. A better understanding of the state-centric approach contributes to Chinese companies’ sustainable investment and the long-term relationship between Chinese investors and African peoples.
Preface

This dissertation is an original intellectual product of the author, Bingyu Liu, including the identification and design of this dissertation program, performance of the various parts of this dissertation, and analysis of the dissertation data.

The fieldwork reported in this dissertation was covered by UBC Ethics Certificate number H16-00668 approved by UBC Behavioural Research Ethics Board. The project title is “The China Problem in Africa’s Environmental Governance: A Multi-Level Regulatory Analysis of Chinese Multinationals’ Behavior and Motivation”.

Parts of the findings from Chapter 4 have been published in the *South African Journal of Environmental Law and Policy* in a single-authored article entitled “Regulation of Chinese Infrastructure Companies’ Environmental and Social Impact in Host Countries Overseas: A Study of the Chinese-Built Standard Gauge Railway Project in Kenya”.

Parts of the findings from Chapter 2 have been published as a single-authored article “Strengthening the Regulation and Management of Forest Biodiversity Conservation by Multinationals during Foreign Investment” in Ed Couzens et al. (eds.) *Protecting Forest and Marine Biodiversity: The Role of Law*, Edward Elgar Publishing Ltd.

Parts of the findings from Chapters 2 and 5 have been published in a single-authored paper entitled “The Role of Chinese Financial Institutions in Promoting Sustainable Investment under the One Belt One Road Initiative”, in the Asia Pacific Dispute Resolution Working Papers Series.
Table of Contents

Abstract............................................................................................................................................ iii

Lay Summary .................................................................................................................................... iv

Preface................................................................................................................................................. v

Table of Contents .......................................................................................................................... vi

List of Tables .................................................................................................................................... x

List of Figures ................................................................................................................................... xi

List of Abbreviations ..................................................................................................................... xii

Glossary ............................................................................................................................................... xiv

Acknowledgments ............................................................................................................................ xvii

Chapter 1: Introduction  .................................................................................................................... 1

1.1 Problem Statement and Research Questions.............................................................................. 3

1.2 Research Methodology .............................................................................................................. 4

1.2.1 Qualitative and Quantitative Analysis of Legal Instruments.................................................. 4

1.2.2 Case Study .............................................................................................................................. 4

1.2.3 Interviews and Fieldwork ...................................................................................................... 5

1.2.4 Limitations ............................................................................................................................ 7

1.3 Research Contribution .............................................................................................................. 8

1.4 Thesis Overview ....................................................................................................................... 9

Chapter 2: State-Centric CSR and China’s Policy Framework ....................................................... 12

2.1 The Conventional Approach to CSR: Market-Based and Non-Governmental Actors

Driven ................................................................................................................................................ 12

2.2 The Emergence of State-Centric CSR in China ....................................................................... 16

2.2.1 Definition and Characteristics of State-Centric CSR ............................................................ 16

2.2.2 Why Does the Chinese Government Have Incentives to Promote CSR? ......................... 19
2.2.3 Strengths and Limitations of State-Centric CSR ........................................... 21
2.3 Extending the State-Centric Approach beyond Chinese Borders .................... 23
2.4 A Regulatory Overview of China’s State-Centric Approach to CSR Abroad ............ 25
  2.4.1 The Regulatory Framework of China’s “Going Out” Policy ................................ 26
  2.4.2 Recent Developments of China’s Sustainable Investment Policies .................. 28
  2.4.3 Limitations of Current Policies and Regulations ........................................... 47
2.5 Chapter Summary ................................................................................................. 50

Chapter 3: China’s Foreign Investment in Africa and Its CSR Implications ............... 52
  3.1 China’s Foreign Investment in Africa under the OBOR Initiative ...................... 52
    3.1.1 The OBOR Initiative ...................................................................................... 52
    3.1.2 China’s Infrastructure Investment in Africa ................................................. 60
  3.2 The Impact of China’s Investment in Africa ...................................................... 65
    3.2.1 Economic Impact .......................................................................................... 67
    3.2.2 Community Impact ....................................................................................... 69
    3.2.3 Environmental Impact ................................................................................. 72
  3.3 What Are the Incentives for China to Engage in CSR in Africa? ....................... 75
    3.3.1 Reducing Conflicts and Litigation Risks ....................................................... 76
    3.3.2 Reducing Economic Losses .......................................................................... 79
    3.3.3 Protecting Political Image .............................................................................. 81
  3.4 What is the Relevancy of China’s “State-Centric” Approach to the African Context? .. 82
  3.5 Chapter Summary ............................................................................................... 84

Chapter 4: The SGR Project in Kenya as a Case Study ........................................... 85
  4.1 The Importance of Kenya in China’s OBOR Initiative ....................................... 86
    4.1.1 China’s General Investment in Kenya ............................................................ 86
    4.1.2 China’s Infrastructure Investment in Kenya .................................................. 88
4.2 Kenya’s Institutional Environments ................................................................................. 90
  4.2.1 Kenya’s Political and Social Conditions................................................................. 90
  4.2.2 Kenya’s Economic Development .............................................................................. 92
  4.2.3 Kenya’s Regulatory Environment for Environmental and Social Protection .......... 94
4.3 The History and Impact of the SGR Project ................................................................. 96
  4.3.1 History of the SGR .................................................................................................. 97
  4.3.2 Concerns over the SGR Project ............................................................................... 99
4.4 Key Actors in Addressing the Environmental and Social Concerns in the SGR Project ............................................................................................................. 101
  4.4.1 The Kenyan Government ......................................................................................... 102
  4.4.2 The Chinese Government ....................................................................................... 105
  4.4.3 China Exim Bank .................................................................................................. 109
  4.4.4 The CRBC’s CSR Efforts ......................................................................................... 112
  4.4.5 NGOs and Media in Kenya ..................................................................................... 119
4.5 Evaluation .................................................................................................................. 121
  4.5.1 The State-Centric Approach in Advancing CRBC’s CSR ........................................ 121
  4.5.2 Limitations of the State-Centric Approach in the SGR Project ............................... 124
4.6 Chapter Summary ...................................................................................................... 126

Chapter 5: Policy Recommendations to Promote China’s Sustainable Investment .......... 127
  5.1 Improve the Effectiveness of Broad and Vague Guidelines ........................................ 127
  5.2 Enhance Capacity Building of Chinese Financial Institutions ................................... 129
    5.2.1 Improve the Environmental and Social Safeguard Framework ............................ 129
    5.2.2 Enhance Chinese Financial Institutions’ Assessment Capacity .......................... 132
  5.3 Improve Transparency .............................................................................................. 133
5.4 Enhance Internal and External Monitoring Mechanisms ........................................... 136

5.4.1 Enhance the Responsibility of Directors and Senior Managers ......................... 136

5.4.2 Enhance External Monitoring Mechanism ........................................................ 138

5.5 Build Effective Communication with Local NGOs and Media .............................. 142

5.6 Chapter Summary ................................................................................................. 145

Chapter 6: Conclusion .............................................................................................. 146

6.1 Concluding Remarks ............................................................................................ 146

6.2 Future Research Agenda .................................................................................... 147

Bibliography ............................................................................................................ 149

Appendix 1: List of Interviews .................................................................................. 187

Appendix 2: Interview Guideline for Chinese Infrastructure SOEs in Kenya ............. 190

Appendix 3: Interview Guideline for Government Officials ......................................... 189

Appendix 4: Interview Guideline for China Exim Bank ............................................ 193

Appendix 5: Interview Guideline for Staff Members of Environmental NGOs and UN Environment ........................................................................................................ 194

Appendix 6: Policies, Plans and Strategies Involved in Environmental and Social Impact Assessments for the Project ................................................................. 195

Appendix 7: Kenya China Economic and Trade Association Members .................. 196
List of Tables

Table 2.1: The Role of Chinese Government in Advancing CSR under the State-Centric Approach………………………………………………………………………………………………18
Table 2.2: The State-led Initiatives on Chinese Companies Overseas CSR Performance………34
Table 2.3: Chinese Government’s Green Finance Initiatives………………………………………39
Table 2.4: Environmental and Social Governance Frameworks of Financial Institutions in China…………………………………………………………………………………………………44
Table 3.1: Chinese Companies’ Investment in Diverse Sectors in Africa……………………57
Table 3.2: Chinese Financial Institutions Participating in Investment in Africa………………57
Table 3.3: Selected Large Chinese-Invested Infrastructure Projects in Africa………………62
Table 3.4: Percent Responding Favorable of China’s Investment in Africa (2017)……………66
Table 3.5: Selected Environmental Incidents Caused by Chinese Companies in Africa……74
Table 4.1: Funding and Contractor Details of Selective Chinese Infrastructure Projects in Kenya………………………………………………………………………………………………………89
Table 4.2: The Interested and Affected Parties of the Project……………………………………100
List of Figures

Figure 1.1: Stakeholders Involved in Chinese Investment Projects Overseas..................6

Figure 2.1: Stakeholders Involved in Chinese Companies’ “Going Out” Process...............27

Figure 3.1: The Map of the OBOR Initiative..............................................................54

Figure 3.2: Chinese FDI Flows to Africa ($US mn).......................................................56

Figure 3.3: Chinese Financiers’ Contribution to African Loans (2000-2014)...............65

Figure 4.1: Kenya’s FDI Inflow from China (2003-2012)...........................................87

Figure 4.2: China’s FDI Share of Kenya’s Total FDI (2003-2012).............................88

Figure 4.3: Proposed SGR Network........................................................................97

Figure 4.4: State-Centric Approach in Advancing CRBC’s CSR in the SGR.............122
List of Abbreviations

ABC  Agricultural Bank of China
ADB  Asian Development Bank
AfDB  African Development Bank
AIIB  Asian Infrastructure Investment Bank
CBRC  China Banking Regulatory Commission
CCCC  China’s Communications Construction Company
CCCMC  China Chamber of Commerce of Metals, Minerals and Chemicals Importers and Exporters
CCP  Chinese Communist Party
CDB  China Development Bank
China Exim Bank  China Export-Import Bank
CRBC  China Road and Bridge Corporation
CSR  Corporate Social Responsibility
ECCO  Economic and Commercial Counselor’s Office
EMCA  Environmental Management and Coordination Act
ESIA  Environmental and Social Impact Assessment
FDI  Foreign Direct Investment
FOCAC  The Forum on China-Africa Cooperation
GRI  Global Reporting Initiative
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC</td>
<td>Hong Kong and ShangHai Banking Corporation</td>
</tr>
<tr>
<td>ICBC</td>
<td>Industrial and Commercial Bank of China</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
</tr>
<tr>
<td>KCETA</td>
<td>Kenya China Economic and Trade Association</td>
</tr>
<tr>
<td>KWS</td>
<td>Kenya Wildlife Service</td>
</tr>
<tr>
<td>MEE</td>
<td>Ministry of Ecology and Environment</td>
</tr>
<tr>
<td>MOFCOM</td>
<td>Ministry of Commerce</td>
</tr>
<tr>
<td>NDB</td>
<td>New Development Bank</td>
</tr>
<tr>
<td>NDRC</td>
<td>National Development and Reform Commission</td>
</tr>
<tr>
<td>NLC</td>
<td>National Land Commission</td>
</tr>
<tr>
<td>OBOR</td>
<td>One Belt and One Road Initiative</td>
</tr>
<tr>
<td>PPP</td>
<td>Public Private Partnerships</td>
</tr>
<tr>
<td>RTI</td>
<td>Railway Training Institute</td>
</tr>
<tr>
<td>SACE</td>
<td>Sino-African Centre of Excellence Foundation</td>
</tr>
<tr>
<td>SASAC</td>
<td>State-owned Assets Supervision and Administration Commission</td>
</tr>
<tr>
<td>SDGs</td>
<td>Sustainable Development Goals</td>
</tr>
<tr>
<td>SOE</td>
<td>State-Owned Enterprise</td>
</tr>
<tr>
<td>SRI</td>
<td>Socially Responsible Investing</td>
</tr>
</tbody>
</table>
Glossary

China Banking Regulatory Commission

A Chinese government body that is responsible for formulating supervisory rules and regulations governing banking institutions and for administering the supervisory boards of the major state-owned banking institutions.¹

Chinese Policy Banks

This term refers to three banks in China: Agricultural Bank of China (ABC), China Development Bank (CDB), and the Export-Import Bank of China (China Exim Bank). China’s policy banks are charged with policy lending in areas such as infrastructure projects, and with promoting foreign trade and diplomacy. These banks participate in a variety of foreign economic activities, including lending to Chinese SOEs to finance projects abroad and lending directly to foreign governments or projects.²

Chinese State-Owned Enterprises

Public overseas companies that are majority-owned by the government are called SOEs. Different levels of government may own SOEs. There are central-government-owned SOEs and provincial-government-owned SOEs.³ The type of SOEs discussed in this dissertation is central-government-owned SOEs.

Development Project

A project intended to increase a developing country’s ability to produce in the future. Such projects are most commonly additions to the country’s capital stock, but they may involve

improvements in infrastructure, educational facilities, discovery or development of natural resources, and so on.4

**Foreign Direct Investment**

An investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate).5

**Investment Risk**

Investment risk can be defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment. The risk of companies’ operation is influenced by internal and external environment, with the characteristics of complexity and changeability.6

**Ministry of Commerce**

A Chinese government body that is responsible for administering China’s foreign trade, economic cooperation, and foreign investment.7

**Ministry of Ecology and Environment**

A Chinese government body that is responsible for developing and implementing national policies, laws, and regulations for environmental protection.8

---


National Development and Reform Commission

A Chinese government body that is responsible for formulating and implementing national economic and social development and for analyzing domestic and international economics, including overseas investments.

State-owned Assets Supervision and Administration Commission

A Chinese government body that is responsible for managing SOEs, appointing top officials, creating laws governing SOEs, and guiding the reform and restructuring of SOEs.9

Transnational Companies

Economic agents generally led by a parent company that does business in its home country and operates in other countries through subsidiaries or subcontractors.10

Acknowledgments

The PhD study represents a key milestone in my life, from which I learned, grew and found my career goals to make the world a better place. This exciting yet challenging journey would not be possible without the support and guidance of faculty, friends and family.

I would like to express my special appreciation to my supervisor Professor Li-Wen Lin. Thank you for your patient and strong guidance that inspires me in both academic and personal life in the last two and half years. I would like to acknowledge the contributions of my thesis committee Professor Pitman Potter and Professor Timothy Cheek to this dissertation project. Thank you for your kindness, serious engagement and valuable insights that improved this thesis. Especially, I would like to thank Professor Pitman Potter who supervised my study and gave me lots of encouragement and support in the first one and half years. I would also like to express my sincere gratitude to Professor Victor V. Ramraj, for the time and scrutiny you dedicated to review my thesis. Thank Professor Paul Evans, Professor Karin Mickelson, Professor Ljiljana Biuković, Professor Natasha Affolder and Professor Galit Sarfaty for your encouragement and inspiration at different stages of this dissertation project.

This dissertation would not be accomplished without the financial support of the Doctoral Scholarship of the UBC-China Scholarship Council. I offer my sincere gratitude to the faculty, staff, and friends at Peter A. Allard School of Law, St. John’s College, and Institute of Asian Research, who have funded and helped me during my study and life at UBC. I especially would like to thank my dear friends, who motivated me with passion in research, offered valuable opinions by personal experience during the PhD studies.

I am indebted to the interviewees both in China and Kenya who contribute to the richness of this dissertation project and aided me in collecting the data during my fieldwork in China and Kenya. I would also like to thank my colleagues and friends at UN Environment in Kenya to help me and guide my empirical research and work in Kenya between September 2016 and February 2017.

Above all, special thanks are owed to my parents and my husband. I could not be more fortunate to have them as my life model and companion.
Chapter 1: Introduction

Corporate social responsibility (CSR) is often understood as voluntary corporate action that goes beyond minimum regulatory compliance. The traditional understanding of CSR is that it is market-based and driven by non-governmental actors. This traditional understanding is mainly based on the study of CSR in Western countries. However, many developing countries do not have similar institutional qualities. How could CSR be promoted in a context where socio-economic institutions are non-market-based and where there is a lack of active non-governmental actors? This suggests the need to rethink the traditional CSR approach and explore possible alternatives. A possible alternative is the “state-centric” approach practiced in China, where the government and its affiliated institutions are the primary actors in driving and framing CSR initiatives. Ho observes the emergence of state-centric CSR in China, showing that Chinese national and subnational government actors are not only regulators but also important corporate stakeholders in advancing CSR. Under this state-centric CSR paradigm, the Chinese government has made efforts to raise awareness of, facilitate, and mandate the practice of CSR in China. The state-centric CSR framework was originally proposed to explain Chinese companies’ domestic CSR behavior. With the rapid increase of China’s outward foreign investment under the high-profile “One Belt One Road” (OBOR) initiative, it is important to examine how the state-centric approach can also be applied to the CSR behavior of Chinese companies overseas. This dissertation, therefore, analyses the strengths and limitations of the state-centric approach in the context of Chinese investment overseas.

This dissertation first summarizes and analyzes the development of the Chinese government’s policies with regard to foreign investment, CSR practices, and green financing in connection with sustainable investment overseas. In recent years, the Chinese government has become more sensitive to criticisms of Chinese companies’ overseas investments and has made a concerted effort to improve its environmental and social regulations and guidelines. Under the Chinese government’s direction, Chinese companies and financial institutions are increasingly adopting

---


socially responsible business measures and practices to respond to the environmental and social protection needs of host countries.

This dissertation then uses a case study of a major Chinese investment project in Kenya, i.e. the Standard Gauge Railway (SGR) project, to analyse the potential utility of the state-centric approach in promoting China’s sustainable investment in Africa. Chinese investment in Africa has increased significantly in the last 10 years and it is expected that Chinese state-owned enterprises (SOEs) will continue to drive this under the OBOR Initiative. Infrastructure investment is a main focus under the OBOR Initiative and Kenya is a major location of infrastructure projects undertaken by Chinese SOEs. As infrastructure projects are large in scale and have great impact on the local environment and local communities, there are many risks and challenges that these Chinese SOEs have to face in the implementation stage, such as how to secure social acceptance, how to ensure adequate labor and working conditions, and how to protect the environment and indigenous peoples’ land and property rights. Improper management of the environmental and social impact of Chinese infrastructure projects may result in conflicts with local communities and/or direct economic losses that affect Chinese companies’ overseas long-term interests. Handling these issues is an urgent task for Chinese companies when they engage in investment in Africa.

China intends to use the SGR project as part of China’s OBOR initiative to open up the Eastern Africa for trade and investment. Like other Chinese infrastructure projects in Africa, the SGR has sparked controversy for its community and environmental impact, contracting practices, and financing arrangements. This dissertation analyzes how the state-centric CSR approach influences China Road and Bridge Corporation (CRBC)’s CSR practices in the Standard Gauge Railway (SGR) project in Kenya. The case study is in order to understand more thoroughly the strengths and limitations of the state-centric CSR approach in advancing Chinese companies’ overseas CSR practices. Specifically, by examining the roles of different stakeholders - the Kenyan government, the Chinese government, China Export-Import Bank (China Exim Bank), CRBC, and NGOs and the media in Kenya - the case study shows how CRBC has tried to tackle environmental and social pressures, comply with Kenya’s domestic and international environmental standards, and fulfill its CSR practices during the construction project. The SGR case demonstrates the role of the state-centric approach in advancing CRBC’s CSR practices. It
provides regulatory lessons for future Chinese infrastructure investment in Kenya and beyond. This case also reflects the limitations of the state-centric approach and provides a deeper understanding of China’s state-centric CSR policy.

1.1 Problem Statement and Research Questions

CSR is typically a self-regulated and market-driven attempt in advancing corporate social and environmental behavior. Considering the potential limitations and ineffectiveness of the traditional CSR approach, Ho proposes a state-centric CSR approach in the context of China.\textsuperscript{13} Under the state-centric approach, Ho claims that Chinese national and subnational government actors are not only regulators but also companies’ most important stakeholders in advancing CSR. While some studies in China have noted the state-centric approach, these have focused on its application to Chinese domestic rather than overseas CSR practices.\textsuperscript{14} China has rapidly become one of the world’s biggest overseas investors, particularly with investments heavily concentrated in infrastructure projects.\textsuperscript{15} Its grand infrastructure projects in Africa, for instance, have sparked controversies given their community and environmental impact. A series of pollution incidents has not only caused ecological degradation but also harmed China’s international image. Considering the mounting international scrutiny and criticism of Chinese companies’ environmental and social performance, it is important to examine how the state-centric approach applies to advancing Chinese overseas companies’ CSR overseas.

This dissertation addresses the following questions: How has the state-centric approach been applied to promote Chinese sustainable investment overseas? What are the features, strengths and limitations of the state-centric approach in advancing Chinese companies’ overseas CSR practices? What are the policy implications emerging from the SGR case in Kenya?

To these questions, this dissertation has developed the following propositions: Close institutional, relational, and bureaucratic ties between the state and the business community give the Chinese


\textsuperscript{15} For more discussion, see Chapter 3.
government the power to influence Chinese companies’ (especially SOEs’) behavior overseas. Under the state-centric approach of CSR, the Chinese government can facilitate Chinese companies’ overseas CSR practices through mandating, facilitating, endorsing and partnering to minimize the negative externalities of Chinese companies’ overseas activities. However, the state-centric CSR approach limits the space for the engagement of civil society. The effectiveness of the state-centric approach to CSR abroad is constrained by different institutional contexts and ownership types of Chinese companies. The strengths and limitations of the state-centric approach illuminated through the SGR project could provide regulatory lessons for future Chinese infrastructure investment.

1.2 Research Methodology

1.2.1 Qualitative and Quantitative Analysis of Legal Instruments

This dissertation compiles and examines legal documents on the promotion of sustainable investments by the Chinese government and its affiliated entities (including state-owned industrial companies and state-controlled financial institutions) between 2007 and 2017. Taken together, these documents provide a framework to reveal how the Chinese state intends to shape the social and environmental performance of Chinese companies overseas as a whole.

1.2.2 Case Study

In the current international context, due to different social and cultural environments, environmental governance varies from nation to nation. Legal strategies must be consistent and congruent with empirical realities in each cultural context. Detailed and localized field research should help to design a better regulatory framework for companies’ environmental and social behavior. The case study of CRBC’s CSR practices in the SGR project in Kenya is used here to investigate and analyze the role and utility of the state-centric approach. The case selection was based on whether the company was willing to provide and verify relevant information and whether the project has triggered considerable environmental and social controversy at the local level. In this case, the SGR project is the largest infrastructure project in Kenya in the past
century. It is also the flagship project of Kenya’s “Vision 2030.”\textsuperscript{16} The contractor for the SGR project is a Chinese SOE, with 85% of the project’s funding coming from China’s Exim Bank, one of China’s major policy banks. Since its commencement, the SGR project has received great attention from the Kenyan government and people. It has sparked controversy due to its community and environmental impact, contracting practices, and financing arrangements. Hence, the SGR project in Kenya is a good case study to illuminate and examine the strengths and weaknesses of the state-centric approach in regulating Chinese companies’ environmental and social behavior overseas.

1.2.3 Interviews and Fieldwork

A stakeholder analysis is used to analyze the roles of different actors related to development projects. The main goals of the stakeholder analysis are to: 1) identify the stakeholders; 2) assess how stakeholders affect/are affected by projects; 3) examine the relations among stakeholders; and 4) assess the stakeholders’ participation during project construction and implementation. The stakeholders involved in the SGR project are listed in Figure 1.1.

In the context of Chinese overseas investment, the environmental and social behavior of Chinese companies is influenced by the governments of the host and home countries as well as their respective financial institutions, media, and non-governmental organizations (NGOs). Under the state-centric approach, China’s government and state-controlled financial institutions are crucial actors that considerably influence the environmental and social behavior of Chinese companies.\textsuperscript{17} By conducting semi-structured interviews with the different stakeholders indicated in Figure 1.1, this dissertation aims to examine the strengths and weaknesses of the state-centric CSR approach in addressing the environmental and social impact of the SGR project in Kenya.


Given resource constraints and lack of access to comprehensive surveys or in-depth interviews with large samples, this dissertation uses small but representative in-depth interviews and gathers further insights from experts. A total of 39 interviewees were interviewed for this dissertation (see Appendix 1). These included government officials, staff members of environmental NGOs, and media personnel in Kenya and China; officers of UN Environment in Kenya; (project) managers and officers at Kenyan branches of Chinese companies; project managers of Chinese policy banks; and elected government officials of affected Kenyan counties. The detailed explanation of the interview design is included in Chapter 4. The interview questions were given to all respondents and are listed in Appendix 2-5. In general, the interviews looked at the interviewees’ perception of Chinese infrastructure’s impact at the local level and their opinions on what effective regulatory mechanisms can be adopted to promote sustainable Chinese investment. Open-ended questions were designed for the interviewees to investigate their alternative livelihoods and basic attitudes toward the SGR project and to explore whether and to what extent the construction of the SGR project would affect their livelihoods.

The interviewees were contacted through personal contacts and email correspondence. Four of the interviewees were known from prior personal contact before arriving in Kenya. The
snowballing technique was used to solicit more interviews by asking interviewees to refer other potential interviewees. Thirteen interviewees were contacted through introductions provided by the four previous contacts in Kenya. Many interviewees were contacted through conferences and social activities, including China’s Ecological Civilization Cooperation under the South-South Cooperation Conference held at UN Environment in Kenya in September 2016, training programs for project managers of Chinese SOEs operating in Kenya held by the Chinese embassy in Kenya, the 2016 Nairobi Conference on Earth System Governance, and one local NGO protest against the SGR project outside the Chinese embassy in Kenya in 2016. These events provided unique and valuable opportunities to network with 20 Chinese infrastructure companies, policy makers, government officials, and researchers working for NGOs. Two colleagues from UN Environment were also invited to participate in the interviews. Each of the eight interviewees contacted via email, who indicated a willingness to be interviewed, was sent a copy of the consent form and was informed on how the interviews would be conducted. Depending on the interviewees’ availability and interest in the topic, each interview lasted between 45 minutes and 1.5 hours.

1.2.4 Limitations

Some difficulties with the interviews, in particular the building of rapport and mutual trust with the interviewees, were anticipated. Given that Chinese companies overseas mostly operate in environmentally fragile areas, the environmental and social risks caused during infrastructure construction are sensitive topics for Chinese SOEs. Furthermore, as the behavior of Chinese companies, particularly Chinese SOEs, is closely intertwined with the Chinese government’s political interests, interviews with the staff of these companies may not provide reliable information. Interviewees, especially officials from the Chinese government and managers of Chinese infrastructure SOEs, may be unwilling to provide objective evaluations or accounts of Chinese companies’ environmental and social behavior in Africa. In addition, different cultures and habits made it difficult to interact and communicate with local environmental NGOs and communities. There were limited opportunities to build trust with interviewees, leading to potential issues of low trust and inconsistency in the interview sets.
Furthermore, it should be noted that the case selected in this dissertation is mainly intended to present some specific CSR aspects of one Chinese SOE engaged in infrastructure construction in Kenya. It does not intend to examine all aspects of corporate behavior of the SOE in the case or broadly in other SOEs. In addition, although the interview sample covers a wide range of interviewees, the small number of interviewees means that the dissertation cannot fully represent the complex landscape of Chinese companies’ operations in Kenya. There are various types of Chinese companies operating in Kenya from SOEs to privately-owned companies. The state-centric approach to CSR may not be equally effective to influence privately-owned Chinese companies’ CSR considering the diverse political and business cultures of different ownership types of Chinese companies. Lastly, the economic and social conditions in African countries also vary from one country to another. Whether the state-centric approach could also be applied to other Chinese infrastructure companies in other African countries requires further examination. This dissertation serves only as a starting point for further research and lays a foundation for future empirical work to analyze the strengths and limitations of the state-centric approach in promoting Chinese sustainable overseas investment.

1.3 Research Contribution

This dissertation provides a better understanding of the promises and limitations of the state-centric approach in advancing Chinese infrastructure SOEs’ environmental and social protection activities overseas. The existing literature on China’s state-centric approach focuses on its application on domestic CSR practices; few scholars have empirically examined the role of state-centric approach in promoting China’s sustainable investment overseas. This dissertation expands the application of Ho’s state-centric CSR framework by analyzing its utility and limitations for the regulation of Chinese SOEs’ environmental and social behavior overseas. This dissertation provides the first academic study that gives a comprehensive analysis of Chinese policies and guidelines in connection with overseas investment. This dissertation demonstrates that the Chinese government is an important force in promoting positive CSR behavior of its affiliated companies and financial institutions. This dissertation also shows the limitations of the state-centric approach, such as the lack of engagement with the civil society and its limited role in influencing and directing Chinese privately-owned companies’ CSR overseas. A better understanding of China’s state-centric CSR approach is helpful in designing effective regulatory methods to
promote sustainable investments by Chinese companies.

The bulk of the literature focuses on the impact of Chinese foreign investment on host countries generally but rarely focuses on specific countries. This dissertation analyzes the most recent and influential infrastructure project of Chinese investment in Kenya, Kenya’s SGR project. This dissertation conducts the first academic study that examines the environmental and social impact of the project from a legal perspective. It also interrogates the widespread assumption that China is responsible for ignoring many of the environmental and social problems in the SGR case in Kenya. The SGR project presented in this dissertation can provide as a regulatory lesson for future Chinese infrastructure investment in African countries. CRBC’s CSR practices in the SGR project, which stem from the direct governing and monitoring power of the Chinese government and China Exim Bank, is a good example of the implementation of the state-centric CSR approach overseas. This experience could be applied to advance other Chinese infrastructure companies’ CSR in Kenya and possibly elsewhere. Meanwhile, given the deficiencies of the state-centric approach revealed in the SGR Project, other Chinese infrastructure companies overseas could learn how to facilitate large-scale development projects sustainably such as through having close engagement with local NGOs and improving information disclosure by Chinese financial institutions.

Beyond scholarly contributions, this dissertation has practical policy implications. It proposes suggestions on how to improve sustainable investment of Chinese SOEs in Kenya and possibly in other African countries. The practical policy recommendations include the following: (1) improve the implementation of vague guidelines by providing host-country specific guidelines and platforms for sharing practical experiences; (2) improve Chinese companies’ and financial institutions’ performance capacity by hiring qualified personnel and implementing internal governance rules; (3) enhance supervision and transparency mechanisms; (4) improve Chinese institutions’ engagement with local NGOs and media in host countries. The policy suggestions

---

may help Chinese overseas companies and financial institutions more effectively reduce investment risks and achieve the long-term financial success of investment projects. The improvement of environmental and social behavior of Chinese companies and financial institutions may also help sustainable development in host states. As China continues to expand its overseas investment, the policy recommendations could help Chinese investment make greater contributions to host societies.

1.4 Thesis Overview

Starting with the Chapter 1, which introduces this dissertation question and methodology, this dissertation mainly addresses the following questions: How has the state-centric approach been applied to promote Chinese sustainable investment overseas? What are the features, strengths and limitations of the state-centric approach in advancing Chinese companies’ overseas CSR practices? What are the policy implications emerging from the SGR case in Kenya? Chapter 2 first reviews the CSR literature and introduces the theoretical development of the state-centric approach. Against this theoretical framework, this dissertation examines the development of the Chinese government’s sustainable investment policies between 2007 and 2017.

As Africa is one of China’s major investment destinations, Chapter 3 applies the state-centric approach to the African context. It examines the economic, community and environmental concerns of Chinese investment in Africa under China’s OBOR initiative. The African context enriches the theoretical understanding of the strengths and weaknesses of the state-centric approach to CSR. Moreover, the general assessment of China’s CSR implications in Africa is helpful to understanding the empirical case study on the SGR case in Chapter 4.

Chapter 4 uses the SGR project in Kenya as an empirical case study to more concretely examine the strengths and limitations of the state-centric approach. The chapter first provides a general background of Kenya’s institutional environments and China’s infrastructure investment in Kenya. It then examines the roles of key actors in addressing the environmental and social concerns of the SGR project. In particular, the chapter focuses on how the Chinese government and China Exim Bank directed and supervised CRBC’s CSR behavior in the SGR project. Finally, this chapter analyzes the limitations of the state-centric approach revealed in the project.
With the problems revealed in the SGR case in Chapter 4 and the existing regulatory framework discussed in Chapter 2, Chapter 5 presents policy recommendations on how to improve Chinese sustainable investment in the future. Chapter 6 summarizes the key findings of the study and offers suggestions for future research.
Chapter 2: State-Centric CSR and China’s Policy Framework

The chapter begins with an introduction of the theoretical development of CSR to show the strengths and limitations of the conventional market-based CSR approach, before introducing the state-centric CSR approach emerging in China. The Chinese government plays a key role in promoting CSR by mandating, facilitating and endorsing Chinese companies’ CSR practices. This state-centric approach is materialized through many policies and regulations promulgated by the Chinese government. This chapter specifically analyzes the Chinese government’s legal instruments on promoting overseas CSR and green finance between 2007 and 2017. The analysis of China’s policies and regulations reveals the possible advantages and problems of the state-centric approach.

2.1 The Conventional Approach to CSR: Market-Based and Non-Governmental Actors Driven

There is a large body of literature on the concept and practice of CSR.\(^{19}\) The rise of CSR can be understood as an attempt to seek for a more socially embedded form of economic governance.\(^{20}\) CSR emerges as a network governance structure of international organizations, civil society, and private business actors that tries to address institutional weaknesses and compensate for the failures of market liberalism, such as information asymmetry and the insufficient provision of public goods.\(^{21}\) The development of CSR theory reflects a paradigm shift from one that protects shareholders’ economic interests to one that increasingly takes stakeholders’ interests as well as global social welfare into consideration.\(^{22}\) The emerging stakeholders in the CSR framework can be viewed in the context of the “emergence of global civil society and the diffusion of state


authority to more decentralized networks of actors.”\textsuperscript{23} The definition, which places the company at the center of analysis, describes stakeholders as “any group or individual who can affect or is affected by the achievement of the organization’s objectives”\textsuperscript{24}, such as suppliers, consumers, clients, and financial institutions.\textsuperscript{25} In the context of environmental and social protection, CSR essentially suggests that companies should pay more attention to environmental protection, human rights, anti-corruption measures, and the interests of non-traditional stakeholders such as employees, consumers, and local communities.\textsuperscript{26} With attention to CSR, multinational companies not only focus on the economic benefits of investment, but also try to contribute to the public interest, social justice, local development, and environmental concerns in their host countries.\textsuperscript{27}

CSR is often regarded as a self-regulated and market-driven attempt that companies take to move toward and beyond minimum regulatory requirements.\textsuperscript{28} Under the conventional marked-based approach, companies voluntarily engage in more socially responsible activities because of various considerations, such as reputation and long-term profitability, and pressure from shareholders and consumers.\textsuperscript{29} Under this approach, corporate practices are driven mostly by civil society organizations and in response to market pressures from investors and consumers.\textsuperscript{30} Although governments may adopt incentives to motivate companies to conform to legal requirements, much of the impetus toward responsible business practice depends on companies’

\begin{itemize}
  \item \textsuperscript{24} Freeman, Edward. Strategic Management: A Stakeholder Approach (Boston, MA: Pitman, 1984), 46.
  \item \textsuperscript{28} Vogel, David. The Market for Virtue: The Potential and Limits of Corporate Social Responsibility (Brookings Institution Press, 2006).
  \item \textsuperscript{29} Ibid.
\end{itemize}
self-regulation and their engagement with investors and other stakeholders.31

The conventional market-based approach has some strengths, such as adopting firm-specific CSR strategies to gain business reputation and market shares.32 This approach also enables civil society to influence and shape companies’ CSR practices through consumption choices, urging companies to emphasize the integration of social and environmental protection demands in daily business.33 Under the market-based approach, civil society and the media are often decisive in influencing market reactions and public perception, and play significant roles in pressuring companies to behave socially and environmentally responsible. As Vogel puts it, a more responsibly managed company “will be more likely to avoid consumer boycotts, be better able to obtain capital at a lower cost, and be in a better position to attract and retain committed employees and loyal customers.”34 Optimal CSR performances usually have positive correlations with economic benefits.35

However, the conventional market-based approach has limitations in protecting stakeholders’ interests in practice. As CSR is voluntary and market driven, companies engage in CSR “only to the extent that it makes business sense for them to do so.”36 Unlike government regulation, a voluntary CSR framework cannot force companies to make unprofitable but socially beneficial decisions. With an increasing number of multinational companies’ ethical, environmental, and social scandals around the world, scholars have questioned the capacity and willingness of companies to tackle with social and environmental problems under the conventional market-based approach.37 In addition, CSR cannot deal with all market failures. It often cannot

effectively address opportunistic behaviors, such as free riding, which can undermine the effectiveness of CSR.\textsuperscript{38}

The market-based approach is more doable in developed countries with mature markets and strong civil society. In other words, the market-based approach requires institutional qualities. Unfortunately, many countries do not have such institutional conditions. Without strong market forces and civil society pressures, companies’ CSR performance is at best simply window-dressing or at worst not responsive at all. Existing literature has shown that companies operating in less developed countries including Latin America, sub-Saharan Africa, and Asia have terrible CSR performance under the market-based approach.\textsuperscript{39} In less developing countries, CSR programs are usually pursued only for public relations and are “driven by short-term expediency rather than the long-term development needs of a community.”\textsuperscript{40}

The institutional constraints in developing countries suggest alternative approaches to market-based CSR. Scholars have revisited the role of government in promoting CSR.\textsuperscript{41} The role of government in driving CSR has been proposed as a complementary way to promote CSR.\textsuperscript{42} Zadek, for instance, highlights the incorporation of governments into CSR frameworks as a new and crucial stage in the development of CSR.\textsuperscript{43} Over the last decade, governments have joined other stakeholders in strengthening CSR in different fields, such as public warfare and environmental protection.\textsuperscript{44} As McBarnet describes, CSR is a field where market forces, voluntary


\textsuperscript{39} Visser, Wayne. “Corporate Social Responsibility in Developing Countries,” in Andrew Crane, Abagail McWilliams, Dirk Matten, Jeremy Moon, and Donald S. Siegel (eds.), \textit{The Oxford Handbook of Corporate Social Responsibility} (Oxford: Oxford University Press, 2008), 473–499. See also, Hilson, Gavin (2013). “Corporate Social Responsibility in the Extractive Industries: Experiences from Developing Countries” 37(2) \textit{Resources Policy} 131-137.


\textsuperscript{44} Moon, Jeremy (2002). “Business Social Responsibility and New Governance” 37 (3) \textit{Government and Opposition} 385–408. See also, Fox, Tom et al. (2002), “Public Sector Roles in Strengthening Corporate Social Responsibility:
action and legal obligation intertwine.45 On the one hand, companies’ CSR practices are enforced by civil society and consumer activism46; on the other hand, regulation, policymaking, standard setting, and other forms of governmental facilitation of CSR also influence companies’ voluntary adoption of responsible business practices.47

2.2 The Emergence of State-Centric CSR in China

2.2.1 Definition and Characteristics of State-Centric CSR

Ho was among the first to propose the framework of state-centric CSR to understand the practice of CSR in China’s context. Ho claims that in a state-centric CSR framework, Chinese national and subnational government actors are not only regulators but also companies’ most important stakeholders in advancing CSR. Instead of leaving CSR in the hand of corporations and non-governmental organizations, the government takes the lead in driving CSR. It can be understood as a complementary regulatory approach to address the above-mentioned flaws of a fully market-based approach of CSR.48

China is a leading practitioner of the state-centric CSR approach. By examining domestic CSR regulatory measures in China, Ho shows that the Chinese government has a vital role in promoting CSR, reflecting broader governance trends that embrace “quasi-voluntary standards” and other novel incentives to “move companies toward and beyond minimum regulatory


The development of the state-centric approach is closely related to China’s authoritarian political system and the Chinese Communist Party’s (CCP) broad roles “as intermediary, as sponsor or patron of civil society and business organizations, and as controlling shareholder of state enterprise.” In this context, the Chinese government is able to advance CSR directly by using its capacity as “legislator, regulators, enforcers, and market players.” Furthermore, as Chinese SOEs are linked to state organs through institutionalized channels and political practices, their performance and behavior are closely intertwined with the political interests of the government. Lin and Milhaupt demonstrate that the Chinese central government exercises great powers over the selection and compensation of top managers of the SOEs. As top managers of Chinese SOEs usually hold important positions in the government concurrently, the CCP is also functionally well-situated to monitor personnel in the SOEs. Close institutional, relational, and bureaucratic ties between the state and the business community give the Chinese government the power to influence the CSR programs of Chinese SOEs.

Under the state-centric CSR approach, the key roles of the Chinese government include mandating, facilitating, and endorsing Chinese companies’ practice of CSR. The Chinese government can endorse and raise awareness of CSR through direct policy statements, information dissemination, training, and educational programs. The Chinese government can facilitate companies’ CSR practices through capacity building, drafting voluntary guidelines and certification systems, auditing and monitoring, standard setting, establishing financial and reputational incentives, and providing government-coordinated services. The Chinese government can also facilitate CSR by enacting regulations to implement multilateral conventions and guidelines. The Chinese government can mandate and promote CSR adoption

49 Ibid., 375.
50 Ibid., 427.
51 Ibid., 381.
53 Ibid.
through legislative and regulatory enforcement to advance Chinese companies’ CSR practices. For example, the government could require mandatory sustainability reporting of companies’ codes of conduct. Finally, the Chinese government can partner with businesses and civil society in designing, implementing, and monitoring programs to advance CSR practices. This would require Chinese government’s direct collaboration with companies, participation in international organizations, and involvement in dialogues about CSR with other stakeholders to promote CSR. A detailed summary of the role of the Chinese government can play in advancing CSR under the state-centric approach is presented in Table 2.1.

Table 2.1: The Chinese Government’s Roles in Advancing CSR under the State-Centric Approach

<table>
<thead>
<tr>
<th>Government Roles</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endorsing/Raising Awareness</strong></td>
<td>• Identify and promote companies leading in CSR through websites, publications, and public surveys</td>
</tr>
<tr>
<td></td>
<td>• Undertake public surveys and communication campaigns</td>
</tr>
<tr>
<td></td>
<td>• Advocate CSR as part of international trade and investment policy</td>
</tr>
<tr>
<td><strong>Facilitating</strong></td>
<td>• Form institutions to develop and implement CSR policy and initiatives</td>
</tr>
<tr>
<td></td>
<td>• Develop CSR guidelines, monitoring and audit programs</td>
</tr>
<tr>
<td></td>
<td>• Offer incentives for voluntary CSR performance, and adoption of international CSR standards</td>
</tr>
<tr>
<td></td>
<td>• Provide technical assistance and training to enhance capacity building</td>
</tr>
<tr>
<td></td>
<td>• Promote standardization of CSR management models, standards, reports, indicators and auditing systems</td>
</tr>
<tr>
<td></td>
<td>• Enact enabling legislation to promote environmentally socially responsible investment</td>
</tr>
<tr>
<td></td>
<td>• Finance CSR research and innovation programs</td>
</tr>
<tr>
<td><strong>Mandating</strong></td>
<td>• Require mandatory CSR reports or similar disclosures</td>
</tr>
<tr>
<td></td>
<td>• Include CSR measures within public procurement requirements and state fiscal policy</td>
</tr>
<tr>
<td></td>
<td>• Establish minimum compliance standards and enforcement mechanisms</td>
</tr>
<tr>
<td></td>
<td>• Implement international agreements and guidelines through national legislation and binding standards</td>
</tr>
<tr>
<td></td>
<td>• Standardize or require CSR management models, reports, indicators, and auditing system</td>
</tr>
<tr>
<td></td>
<td>• Mandate disclosures regarding socially responsible investment</td>
</tr>
</tbody>
</table>
### 2.2.2 Why Does the Chinese Government Have Incentives to Promote CSR?

An important question arising from the state-centric approach is why the Chinese state has incentives to advocate for CSR. The Chinese government has political, social and economic motivations to promote CSR and develop a more environmentally and socially sustainable framework. At the domestic level, the consequences of Chinese companies and foreign multinationals’ irresponsible CSR behaviors have caused significant outrages within China and posed threats to the ruling legitimacy of the Chinese Community Party. CSR is consistent with “social harmony,” a political doctrine formally adopted by the Chinese Communist Party in 2006. The Party declared that a number of social concerns including wealth inequality, corruption, pollution and unequal access to education and health care should have equal importance of economic growth. The promotion of CSR helps the Party deal with the mounting environmental and social pressure and achieve its political goal of a harmonious society. It can also pressure foreign companies operating in China to improve their CSR behaviors and contribute to the welfare of Chinese society. As the performance and behavior of Chinese

---

57 Ibid., 93.
companies, particularly SOEs, are closely intertwined with the Chinese government’s political interests, the Chinese government’s promotion of CSR is also meant to build domestic support for state capitalism and to justify the legitimacy of the SOEs.62

At the international level, the development of state-led CSR is driven by the state’s interest in improving China’s international power and reputation. The Chinese government actively uses Chinese companies to gain “soft power” in the international politics and economy. As CSR has become a popular norm of international business, it would be difficult to gain access to the international market if not following the norm. Moreover, with the development of international legal instruments such as the UN Sustainable Development Goals (SDGs)63 and the Paris Climate Agreement, investment recipient countries have linked market access with CSR. CSR is an important strategy for China’s international political and economic expansion. Furthermore, Chinese companies that actively engage in international investment are usually SOEs that have close ties with the state.64 Any criticisms against such state-affiliated companies may ultimately harm the Chinese state’s reputation. In particular, as China’s global expansion has encountered the allegation of “neo-colonialism,” the state has incentives to use CSR as a political strategy to alleviate the international concern.

In addition to the political reasons, the Chinese government expressly recognizes that CSR helps Chinese companies’ international competitiveness.65 As note, CSR has become an important ticket to the international market. Moreover, empirical evidence shows that CSR

---

62 Ibid., 86-93.
helps long-term financial performance.\textsuperscript{66} The government seeks to encourage CSR to help Chinese companies to grow internationally and sustainably.

Hence, to guarantee stability and long-term financial success in overseas investment projects and to improve its international reputation in environmental and social protection overseas, the Chinese government has motivations to develop overseas environmental and social protection policies, and other guidelines to guide and regulate the environmental and social behaviors of Chinese companies.

2.2.3 Strengths and Limitations of State-Centric CSR

The state-centric approach to CSR has some strengths. It fosters and enhances positive communication between the Chinese government and business community. It may also improve Chinese companies’ compliance with CSR policies initiatives in practice. Like formal regulation, state-backed CSR instruments “signal the government’s endorsement of CSR practices,” which can have a stronger indirect effect on the social norms than the CSR policies made by companies themselves.\textsuperscript{67} In addition, the government’s all-encompassing control over the economy and society has advantages in nation-wide policy formation and implementation. This may help “regulatory convergence” across companies.\textsuperscript{68} This is impossible under the traditional CSR approach where CSR policy scope is only company-based.

Moreover, as the Chinese government can influence many dimensions of companies’ operations through administrative control over issuing operation licenses, it can effectively motivate companies to adopt relevant CSR guidelines that it issues.\textsuperscript{69} The Chinese government can mobilize various institutional, managerial and financial resources to protect its political image when negative social and environmental accidents occur overseas. Close institutional, relational, and bureaucratic ties between the state and the business community give the Chinese government


\textsuperscript{68} Ibid., 428.

\textsuperscript{69} Ibid., 431.
the power to endorse CSR practices of SOEs. In this way, the Chinese government can more effectively monitor and advance CSR directly and enhance the implementation of CSR initiatives. The state-centric approach thus fills some important gaps in addressing companies’ incapacity and unwillingness to genuinely tackle social and environmental problem under the conventional market-based CSR approach.

In addition, the state-centric approach may strengthen companies’ positive relationships with regulators and fill communication gaps. By supporting the governmental CSR programs and initiatives, Chinese companies may strengthen their legitimacy in the eye of regulators. They also may enhance their social legitimacy by gaining better reputations, broadening their access to customers and business partners.70

However, there are limitations in the state-centric CSR approach. The effectiveness of the state-centric approach depends on the continued commitment, resources, and influence of the Chinese government. It requires extensive governmental resources and financial input to develop, administer and enforce CSR programs. The viability of state-centric voluntary tools also depends on the capacity and will of state agencies and government officials. Corruption, the lack of transparency and capacities of government officials could all undermine the legitimacy of the Chinese government as an advocate of CSR.71

In addition, as Ho points out, this approach “weakens the potentially reinforcing and balancing role of stakeholders and of market forces by limiting the space for independent civil society and voluntary firm initiative” and “constrains the space for public participation and civil society leadership in CSR.”72 The state-centric approach is more likely to the adopted by a government which is “unwilling to cede control over CSR initiatives and policymaking to other actors and is not an impartial partner with business or mediator of firm–stakeholder engagement”.73

Civil society plays major a role in influencing western companies’ behavior.74 Unlike Western  

70 Ibid., 431.
71 Ibid., 434.
72 Ibid., 437.
73 Ibid., 425.
companies’ CSR practices, which are driven almost entirely by robust civil organizations and companies themselves, the CSR practices of Chinese SOEs are mainly driven by the Chinese government through strong governmental control over civil organizations and by the companies’ close political and economic connections with the Chinese government. Civil society and media in China are strictly controlled by the government and have far less power in influencing public opinion. Even though the Chinese government also sees “harnessing the influence of international standard-setting organizations, economic institutions, trading partners, internal management, and civil society” as important mechanisms of informal social control, the country’s state-centric CSR approach toward civil society remains conservative compared to democratic countries.

Finally, an important limitation of the state-centric approach may arise from the demands of financial performance. While SOEs are probably the most responsive group to the state-centric CSR approach, they are also the group that strive for good financial returns in the face of common criticisms of their poor financial performance. How to resolve the conflict between the financial interest and the CSR mission? The state’s performance evaluation scheme hints an answer: financial performance accounts for the major part of performance evaluation while CSR are only minor performance indicators. It suggests that when SOE managers do not see any (especially short-term) economic interests in relation to a given CSR activity, they prefer to pursue financial returns and take such CSR activity superficially. It suggests that the state itself must fully embrace CSR in order to make the state-led CSR approach take effect profoundly.

2.3 Extending the State-Centric Approach beyond Chinese Borders

The state-centric CSR framework was originally proposed to explain Chinese companies’ domestic CSR behavior. With more and more Chinese companies invest overseas with

1444–1447.


corresponding impacts to local communities in host countries, there is a necessity to examine how the state-centric CSR approach influences Chinese companies’ overseas behavior. Unfortunately, there is scarce understanding about how China’s state-centric approach has been applied outside China. The government’s continued dominance in the political, economic and societal spheres in China creates conditions conducive for the emergence of the state-centric approach to CSR. However, the application of the state-centric approach in other national or geographical contexts presents many challenges and opportunities due to the different cultural, economic, political, and legal dynamics of host countries.

First, the institutional environment of the host country is an important variable in the effectiveness of the state-centric approach, as the Chinese central government has little control over the political, economic, social and legal conditions in the host country. On the one hand, China’s state-centric approach may be welcomed by host countries that share similar institutional qualities. On the other hand, China’s state-centric approach may encounter suspicion in host countries with democratic institutions and a tradition of active civil society. As noted, an important limitation of the state-centric approach is the lack of engagement with civil society. This limitation is salient within China as the social sphere is tightly controlled by the state. However, the civil society weakness of the state-centric approach may be alleviated when applied overseas, particularly in host countries of active civil monitoring. Active civil society in host countries might help the effectiveness of the state-centric approach.

In addition, the environmental and social policies of host countries—as well as the political will and capacity of the institutions that enforce and implement these policies—are significant factors in interacting with China’s state-centric approach. As CSR is intended to fill the traditional regulatory gaps, if host countries have mature regulatory institutions and strong legal governance in social and environmental protection, CSR may be less important, regardless of the state-centric or market-driven approach.

---

Second, geographical distance may loosen state control over Chinese companies overseas and the loosening effect may vary with ownership types. The Chinese government probably may not exercise control over Chinese overseas companies to the same level as it does over Chinese domestic companies. This loosening of control is more salient in privately-owned companies. While the Chinese government does not exercise control over privately-owned companies through ownership ties, it can influence many dimensions of the domestic operations of Chinese private companies through various regulatory measures such as licensing and inspections. However, Chinese privately-owned companies have even weaker ties with Chinese government bodies in host countries compared to Chinese SOEs. Since Chinese private companies have much less contact with Chinese government bodies and rarely receive government-linked financial support, there are substantial challenges towards holding these private companies accountable and orienting them towards more responsible business practices.

This section offers a brief analysis of the potential challenges and opportunities of applying China’s state-centric CSR approach overseas and the differences between the domestic and overseas implementation of the approach. The following section will provide an overview of the regulatory framework of China’s state-centric approach to CSR overseas.

2.4 A Regulatory Overview of China’s State-Centric Approach to CSR Abroad

China’s “Going Out” policy provides the context and legitimacy for Chinese companies’ investment overseas. The “Going Out” policy involves different procedures, administrative approval, outflows of funds, and inflows of capital. It shows that among all stakeholders, the Chinese government and state-controlled financial institutions are the major actors in influencing the process of Chinese companies’ investment overseas. In addition to its “Going Out” policy, which establishes the fundamental regulatory background, the Chinese government has

---


79 Interview with official of Chinese embassy in Kenya and official of National Development and Reform Commission

80 Leung, Denise and Zhao, Yingzhen. Environmental and Social Policies in Overseas Investments: Progress and Challenges for China (World Resources Institute, 2013).
promulgated various regulations and policies between 2007 and 2017 on promoting sustainable overseas investment by the Chinese government, companies, and financial institutions.

2.4.1 The Regulatory Framework of China’s “Going Out” Policy

The “Going Out” policy is part of China’s proactive diplomacy strategy. It aims to encourage and support Chinese companies to invest overseas to solve the problems of over-capacity in production within the Chinese economy and to facilitate industrial structural adjustments. Before a Chinese company “goes out”, it usually needs to get administrative approval from the Chinese government and obtain capital from a financial institution. In most cases, the financial institution is a state-owned bank, such as China Exim Bank. The Chinese government uses a wide range of substantial state finance to facilitate Chinese companies’ foreign investment activities. Hence, the Chinese government and Chinese state-controlled financial institutions are vital stakeholders in ensuring Chinese companies’ operation overseas. Usually, Chinese companies must obtain approval of at least three governmental departments, including the National Development and Reform Commission (NDRC), the Ministry of Commerce, and the State Administration of Foreign Exchange. In 2014, the NDRC and the Ministry of Commerce promulgated new management measures, which simplified the flow of overseas investment and significantly reduced the approval time. These interactions are shown in the Figure 2.1.

---


82 Their powers are as follows: NRDC: Supervisor: planning, supervising and coordinating China’s economic development and industrial policies; approving and approving foreign investment projects; Ministry of Commerce: approving specific overseas investment matters and issuing overseas investment certificates for Chinese companies; the State Administration of Foreign Exchange: Foreign exchange registration and filing of overseas investment.

For both Chinese companies and financial institutions, ownership structure asserts a huge influence over the governance practices. China is regarded as the world’s leading practitioner of “state capitalism”, where important overseas companies, especially in “critical industries such as steel, telecom, and transportation,” have a close relationship with the state.  

Most Chinese companies engaging in large-scale overseas infrastructure projects are SOEs, and the financial institutions providing support for the projects are state-owned policy banks. As Chinese SOEs are organized as “networked hierarchies”, they are linked through institutionalized personnel channels and political practices to state organs.  

As discussed before, the Chinese government exercises direct and indirect control over SOEs, “not only as controlling shareholder, but also through personnel management, cross-shareholdings, and direct bureaucratic oversight” by the State-Owned Assets Supervision and Administration Commission (SASAC).  

The Chinese government plays a large role in the supervision and governance of the state-owned banks,

---

including its lending practices to SOEs. Therefore, the interaction among the Chinese government, Chinese overseas SOEs, and state-owned banks provide the condition for the implementation of the state-centric approach.

2.4.2 Recent Developments of China’s Sustainable Investment Policies

The Chinese government has promulgated many overseas sustainable policies and CSR guidelines to gain better international reputations and to ensure the success of overseas investment projects.\textsuperscript{87} In this section, this dissertation provides an overview of the Chinese government’s regulations and policies on overseas environmental and social protection to show the Chinese government’s role in promoting Chinese companies’ CSR and financial institutions’ green finance between 2007 and 2017. This section shows that the Chinese government has made a concerted effort to improve its environmental and social protection regulations and guidelines. This section also summarizes and analyzes the limitations of the existing policies and regulations.

2.4.2.1 China’s CSR Policy Development

In recent years, the Chinese government has become more sensitive to criticisms of Chinese corporate behavior and has made efforts to promote the development of Chinese CSR policies. The Chinese government demonstrates a clear interest in promoting CSR and actively pursues CSR as a strategy to promote the implementation of “scientific development” and a “harmonious society.”\textsuperscript{88} The SASAC defines CSR as actions to implement the philosophy of scientific development and requires SOEs to not only develop in a people-centered way and make profits, but also “be responsible to stakeholders and environment, so as to achieve well-balance among


the growth of enterprises, social benefit and environment protection.” 89 These specific requirements include resource conservation and environmental protection, promoting innovation and technological progress, protecting production safety, participating in social welfare undertakings, honesty and trust, sustainable development, and so on.90 In 2008, SASAC issued “Guidelines on Filling Corporate Social Responsibilities of the State-owned Overseas Companies Directly Managed under the Central Government”, which mandated that all SOEs under its management set up CSR mechanisms within their governance structures. This policy, and the subsequent momentum it generated, led to “the release of more than 1,600 Chinese sustainability reports.”91 SASAC is now exploring ways to build an internal system to evaluate companies’ CSR performance, which may take corporate social and environmental impact as part of the assessment of corporate leaders’ remuneration.92 In addition, the Chinese government has also promoted the development of CSR through the establishment of industrial associations and organizations aimed at publicizing the best practices of business behavior.93 Dialogues with industrial associations, such as the China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters, help to publicize and disseminate CSR policies and guidelines and enhance communications between governments and companies.94

Echoing the Chinese government’s expansion of its CSR policies and regulatory frameworks, some Chinese companies have introduced CSR over the years.95 A growing number of Chinese

90 Ibid.
92 Interview with deputy director of Institute of International Development Cooperation at the Chinese Academy of International Trade and Economic Corporation, MOFCOM.
companies are embracing CSR as part of their corporate strategy. In terms of China’s implementation of CSR, Lin proposes that even though the enforcement and effectiveness of CSR in China still faces many challenges, the achievement of China’s CSR development should not be seen as simply window dressing. According to the 2017 Golden Bees Chinese Companies’ Corporate Social Responsibility Report, the level of Chinese companies’ CSR performance has reached its highest in history, especially in the areas of information disclosure and engagement with communities, employees, suppliers, and stakeholders. The top CSR performers in China are usually SOEs rather than private enterprises.

Chinese CSR policies have joined the trend of referring to international standards, such as the “UN Global Compact,” the “OECD Guidelines for Multinational Overseas Companies,” the “Equator Principles,” the “UN Principles for Responsible Investment,” the “UN Norms on the Responsibilities of Transnational Corporations and other Business Overseas Companies with Regard to Human Rights,” and the “IFC Performance Standards on Environmental and Social Sustainability.” As of the end of 2008, nearly 200 Chinese companies joined the UN Global Compact, which is an initiative that commits companies to 10 principles in the areas of labor,

---

99 Ibid.
100 The “United Nations Global Compact” is a voluntary corporate responsibility initiative that commits businesses to align their operations and strategies with ten universally accepted principles to support and respect internationally recognized human rights, avoid complicity in human rights abuses, uphold freedom of association and collective bargaining, eliminate forced and compulsory labor, eliminate child labor, eliminate all forms of discrimination in employment, support a precautionary approach to environmental challenges, promote greater environmental responsibility, encourage the development of environmentally friendly technologies, and work against corruption in all its forms, including extortion and bribery. See more, The United Nations Global Compact, online: <https://www.unglobalcompact.org/>, accessed on April 8, 2015.
environment, human rights and anti-corruption. Over 100,000 Chinese overseas companies have become ISO 14001 certified, which signifies that the companies have started to enhance their environmental management systems. Besides, some Chinese companies operating in developing countries have voluntarily worked with and adopted Extractive Industries Transparency Initiative (EITI) standards and Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. As of 2016, at least 130 Chinese companies are involved in EITI reporting showing an increase in Chinese companies reporting to EITI. As of 2015, more than 75 percent of China’s top 100 companies and financial institutions produce sustainability reports based on the GRI’s standards. A recent study shows that, Chinese companies no longer have fundamental differences from Western companies regarding the recognition of international environmental sustainability criteria.

2.4.2.2 CSR Measures in Outward Foreign Investment

As China has rapidly evolved into one of the world’s largest overseas investors, CSR is an important topic for Chinese companies operating overseas. Since 2006, the Chinese government has issued a series of guidelines and recommendations calling on companies to respect the environment, community interests, and workers’ rights when investing abroad. In 2007, the Ministry of Commerce issued a circular on “Enhancing Environmental Supervision on Export Companies” to restrict socially irresponsible overseas companies from conducting foreign

---


trade. 107 SASAC also issued the CSR guidelines to strengthen SOEs’ overseas CSR performance. 108 Over 80 official policies and regulations regarding Chinese foreign investment have been issued since 2005. 109 Different agencies, including China’s State Council, the NDRC, the Ministries of Commerce and Foreign Affairs, and other state entities, such as the China Export Import Bank, have been involved in the regulation-making process.

Monumentally, the 18th National Congress of the CCP adopted “Ecological Civilization” as one of its guiding principles in 2012, making green growth and green development an essential part of its national development and overseas investments. 110 Ecological protection gained importance comparable to economic development. This reflects the CCP’s determination to promote a harmonious relationship between people and nature as well as to advance China’s sustainable development in the future. 111 This pledge to environmental protection has been translated into not only domestic environmental policies but also foreign sustainable investment measures. 112 The “Vision and Action to Promote the Silk Road Economic Belt and the 21st Century Maritime Silk Road” published in 2015 also highlights the importance of ecological

civilization, biodiversity, and climate change cooperation to build the green Silk Road.\textsuperscript{113} In December 2016, the Ecological Conservation Dialogue Conference released the “Initiative on Fulfilling Corporate Environmental Responsibility to Build Green One Belt One Road.”\textsuperscript{114} In April 2017, The Ministry of Commerce and four other ministries jointly issued the “Guidance on Promoting Green One Belt One Road” to further advocate the building of a green OBOR.\textsuperscript{115} Under the Chinese government’s existing policies and guidelines, some Chinese overseas companies have started to realize the importance of CSR in reducing friction and operational risks, obtaining local trust, and achieving sustainable development in host countries.\textsuperscript{116}

As a large part of China’s foreign investment involves infrastructure contracts, the Chinese government has particularly issued CSR guidelines in this area. For instance, in 2008 the State Council issued the “Regulation on Management of Foreign Contracted Project”.\textsuperscript{117} Consistent with the State Council’s regulatory move, the China International Contractors Association in 2012 issued the “Guidance on Social Responsibility for Chinese International Contractors”, which recommends suppliers and subcontractors to incorporate “ethics and environmental protection into procurement and subcontracting contracts”.\textsuperscript{118} Accordingly, Chinese companies started to


issue internal rules for suppliers and contractors based on the abovementioned regulations. For example, China Petrochemical Corporation issued the “Notice on Further Strengthening Contractor Management Work,” which requires project contractors to comply with relevant laws and regulations, and meet relevant qualification requirements.\(^{119}\) The following table shows China’s main policy development in enhancing environmental and social protection regulations for Chinese companies overseas.

Table 2.2: The State-led Initiatives on Chinese Companies’ Overseas CSR Performance

<table>
<thead>
<tr>
<th>Time</th>
<th>Issue Agency</th>
<th>Policy Name</th>
<th>Main Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2007</td>
<td>State Forestry Administration</td>
<td>Guidance on Sustainable Overseas Silviculture by Chinese Overseas Companies(^{120})</td>
<td>Requires Chinese overseas companies engaging in logging/silviculture to preserve high-value forests and endangered species, sets up monitoring systems, and consults with local communities.</td>
</tr>
<tr>
<td>January 2008</td>
<td>SASAC</td>
<td>Guidelines to the State-owned Enterprises Directly under the Central Government on Fulfiling Corporate Social Responsibilities(^{121})</td>
<td>Emphasizes the importance of CSR for Chinese SOEs and requires SOEs to take measures for making sustainable profits. Social responsibility is defined broadly as product safety, resource conservation, technological innovation, employee rights, and public welfare. SOEs are asked to establish a communication mechanism to engage stakeholders, disclose CSR activities and publish CSR report on a regular basis.</td>
</tr>
</tbody>
</table>

\(^{119}\) The notice requires that contractor shall be qualified to carry out the safety disclosure and risk informing, carry on the on-the-spot guardianship system, and strengthen the contractor’s safety training, etc.


\(^{121}\) Guidelines to the State-owned Enterprises Directly under the Central Government on Fulfiling Corporate Social Responsibilities (关于中央企业履行社会责任的指导意见), online: <http://www.sasac.gov.cn/n103/n85881/n85921/c969197/content.html>, accessed on July 13, 2018.
<table>
<thead>
<tr>
<th>Date</th>
<th>Authority</th>
<th>Document Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2008</td>
<td>The State Council</td>
<td><strong>Regulation on Management of Foreign Contracted Projects</strong>&lt;sup&gt;122&lt;/sup&gt;</td>
<td>Regulates overseas contracted companies in the fields of safety production and unfair competition. Although the object of the regulation is limited to the domestic parent company of the contracted engineering company, it is also binding on its overseas subsidiary.</td>
</tr>
<tr>
<td>April 2009</td>
<td>State Forestry Administration and Ministry of Commerce</td>
<td><strong>A Guide on Sustainable Management and Utilization of Overseas Forest by Chinese Enterprises</strong>&lt;sup&gt;123&lt;/sup&gt;</td>
<td>Guides Chinese companies to rationally manage, utilize and protect overseas forests in order to play a positive role in sustainable development of global forest resources. Further standardizes the management of forest resources as well as the wood processing and utilization activities of Chinese companies in foreign countries, and enhances self-regulation within the industry. Promotes the legitimate, sustainable management and utilization of global forest resources and related trade activities.</td>
</tr>
<tr>
<td>June 2011</td>
<td>SASAC</td>
<td><strong>Interim Measure on Supervision and Administration of the Assets of Central State-Owned Overseas Companies</strong>&lt;sup&gt;124&lt;/sup&gt;</td>
<td>Requires Chinese SOEs to strengthen the administrative assessment, supervision and evaluation of Chinese overseas subsidies. SASAC shall regularly supervise, audit and inspect the operation and management of Chinese overseas companies.</td>
</tr>
<tr>
<td>September 2012</td>
<td>China International Contractors Association and International Cooperation Department of Ministry of Commerce</td>
<td><strong>Guidance on Social Responsibility for Chinese International Contractors</strong>&lt;sup&gt;125&lt;/sup&gt;</td>
<td>Aims at seven core issues of quality and safety, employee development, owner's rights and interests, supply chain management, fair competition, environmental protection and community development, to request Chinese companies to fulfill CSR, and clear the main points of social responsibility management. The guideline refers to international practices such as the United Nations Global Compact and the ISO 26000 Guide.</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Date</th>
<th>Authority</th>
<th>Document Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 2013</td>
<td>Ministry of Commerce and Ministry of Environmental Protection</td>
<td>Guidance on Environmental Protection in Foreign Investment and Cooperation</td>
<td>Encourages all Chinese companies operating overseas to conduct environmental impact assessments, develop mitigation measures, and work with local communities to identify potential negative impact of the investment.</td>
</tr>
<tr>
<td>September 2013</td>
<td>Ministry of Commerce</td>
<td>Norms on Foreign Investment Cooperation in the Field of Competition</td>
<td>Proposes to establish relevant departments such as foreign investment bad credit record system. In case of unfair competition behavior, companies shall not enjoy national support policies for 3 years; requires Chinese overseas companies to adhere to the principle of mutual benefit and common development, establish and improve the scientific and standardized project decision-making mechanism and quality management system; attach importance to environmental protection, safeguard local labor rights, and actively participate in local public welfare undertakings.</td>
</tr>
<tr>
<td>December 2015</td>
<td>The China Chamber of Commerce of Metals, Minerals and Chemicals Importers and Exporters</td>
<td>Guidelines for Social Responsibility in Outbound Mining Investments</td>
<td>Regulates CSR activities of Chinese parent companies that joins the CCCMC during mining investment; doesn’t cover overseas legal entities that are registered in the host country in the form of joint ventures, shares or acquisitions. Encourages Chinese companies that invest overseas to pay careful attention to labor issues, environmental protection, supply chain due diligence, and human rights concerns.</td>
</tr>
<tr>
<td>June 2016</td>
<td>Ministry of Commerce</td>
<td>Guidance on Safety Risk Prevention for Chinese Overseas Companies</td>
<td>Encourages to build risk and responsibility awareness of Chinese overseas companies, improve the quality of expats, improve local employment, respect local culture to avoid conflicts with local communities, and avoid bribery activities, etc.</td>
</tr>
</tbody>
</table>


127 Norms on Foreign Investment Cooperation in the Field of Competition (规范对外投资合作领域竞争行为的规定), online: <http://www.mofcom.gov.cn/article/b/g/201309/2013090032914.shtml>, accessed on July 13, 2108.


2.4.2.3 China’s Policy Supports to Green Finance

Green finance refers to financial services provided for project investment, project financing, project operations and risk management in the fields of environmental protection, energy conservation, emission reduction, and green technology. It has become a critical issue in financial innovation, global economic development, and environmental governance. Under green finance, financial institutions allocate resources to attract and guide social capital into new low-emission and low-pollution technologies and industries to achieve economic transformation and development. Green finance requires financial institutions to integrate consideration of environmental and social protection into lending decisions, to ensure the transparency of environmental information and measures, and to facilitate oversight and accountability in the lending process. Financial institutions should consider external systemic risks arising from political, economic, and social security environments. With the rise of socially responsible investment, companies that have better environmental conservation practices for their operations may have better chances of acquiring capital from private and multilateral financial institutions. Green finance has the potential to shape borrowing companies’ CSR behavior.

---

134 Hu, Tao et al. (2014). “Managing Environmental Impact: International Experience and Lessons in Risk Management for Overseas Investments” (World Resources Institute), online: <www.wri.org/managing-
The Chinese government is an advocate for green finance. A series of measures have been introduced to support the development of green finance, including the sustainable credit principle and the responsibility investment principle; the promotion of environmental information disclosure and governance requirements; and the introduction of green loans, green infrastructure investment trusts, and green index funds.135 The Hangzhou G20 Summit led by China passed the first “G20 Green Finance General Report” and urged multilateral banks to incorporate social and environmental impact into their infrastructure investment considerations.136 As the investment projects under the OBOR Initiative are capital intensive, financial institutions (including Chinese policy banks and state-controlled commercial banks) play a particularly important role in influencing the CSR behavior of Chinese companies that engage in overseas investment. It raises questions whether Chinese financial institutions are properly incorporating social and environmental risk into their investments overseas and monitoring borrowing institutions’ CSR performance. International observers, environmental groups, and civil organizations have warned that the lack of environmental and social protection standards adopted by China’s financial institutions has contributed to increases in carbon emissions in host countries.137 Western financiers and scholars are concerned that Chinese competitors are using lower environmental and social protection standards as a strategy to gain a larger share of international infrastructure sectors.138

In general, the Chinese government’s policy on green finance has gone through two stages. The development of green finance policies involves the powers and responsibilities of multiple


137 Ibid.

parties, including the People’s Bank of China, the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and the NDRC. In the initial construction of its green finance policy, a key mission of the Chinese government was to launch green credit policies after realizing the importance of promoting sustainable activities and recognizing potential risks to the financial system. The Chinese government started to promote the development of green finance from a national strategic perspective, especially after the release of the 2012 “Guidance on Green Finance”. Between 2012 and 2017, there was a rapid development of their green finance policy to support sustainable financial development. During this stage, the construction of a more comprehensive green finance system was proposed. Table 2.3 introduces the efforts of the Chinese government in promoting green finance to better address overseas investment risks between 2007 and 2017.

### Table 2.3: Chinese Government’s Green Finance Initiatives

<table>
<thead>
<tr>
<th>Issue Time</th>
<th>Name of Regulation and Policy</th>
<th>Issuing Agents</th>
<th>Main Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2007</td>
<td>Guidelines on Compliance Risk Management of Commercial Banks (^{140})</td>
<td>China Banking Regulatory Commission</td>
<td>Requires commercial banks to take into consideration the interrelatedness between compliance risk and credit risk, market risk, operational risk, and other risks, to ensure the consistency of different risk management policies and procedures.</td>
</tr>
</tbody>
</table>

---

\(^{139}\) Leung, Denise and Zhao, Yingzhen. *Environmental and Social Policies in Overseas Investments: Progress and Challenges for China* (World Resources Institute, 2013).

<table>
<thead>
<tr>
<th>Issue Time</th>
<th>Name of Regulation and Policy</th>
<th>Issuing Agents</th>
<th>Main Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2007</td>
<td><strong>Opinions on Implementing Environmental Protection Policies and Regulations to Prevent Credit Risks</strong>①</td>
<td>People’s Bank of China and China Banking Regulatory Commission</td>
<td>Requires environmental protection bureaus and financial institutions at all levels to fully understand the significance of credit policies as tools for environmental protection, and to strengthen environmental monitoring and credit management of construction projects and companies.</td>
</tr>
<tr>
<td>January 2009</td>
<td><strong>Guidance on Social Responsibility of Chinese Banking Financial Institutions</strong>②</td>
<td>China Banking Association</td>
<td>Proposes to establish a green financial system and stress the importance of financial institutions in fulfilling corporate social and environmental responsibility goals.</td>
</tr>
<tr>
<td>June 2009</td>
<td><strong>Circular on Full Implementation of Green Credit Policies and Further Improvement of Information Sharing</strong>③</td>
<td>Ministry Environmental Protection and People’s Bank of China</td>
<td>Requires environmental protection authorities and financial institutions at all levels to fully understand the importance of establishing a mechanism for sharing information on green credit and make use of the Credit Reference Center of the People’s Bank of China as a platform to share environmental information and prescribe as well as the respective responsibilities of environmental protection authorities and financial institutions.</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Issue Time</th>
<th>Name of Regulation and Policy</th>
<th>Issuing Agents</th>
<th>Main Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 2012</td>
<td>Guidance on Green Loans&lt;sup&gt;144&lt;/sup&gt;</td>
<td>China Banking Regulatory Commission</td>
<td>Defines the meaning and scope of environmental and social risks to promote financial institutions to adjust credit structure through green credit to prevent investment risks stipulating that banking financial institutions shall increase their support to the green, low-carbon economy and adopt stronger environmental and social risk management for clients.</td>
</tr>
<tr>
<td>February 2013</td>
<td>Guidance on Environmental Protection during Foreign Investment and Corporation&lt;sup&gt;145&lt;/sup&gt;</td>
<td>Ministry of Commerce and Ministry Environmental Protection</td>
<td>Guides Chinese companies to standardize environmental protection behavior in foreign investment, and to fulfill CSR to promote the sustainable development of foreign investment.</td>
</tr>
<tr>
<td>December 2014</td>
<td>The Critical Assessment Criteria on Green Loan Implementation&lt;sup&gt;146&lt;/sup&gt;</td>
<td>China Banking Regulatory Commission</td>
<td>Prescribes environmental and social assessment criteria for overseas projects.</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Issue Time</th>
<th>Name of Regulation and Policy</th>
<th>Issuing Agents</th>
<th>Main Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2016</td>
<td>Guidance on Building Green Finance System¹⁴⁷</td>
<td>People’s Bank of China, Ministry of Finance, National Development and Reform Commission, Ministry Environmental Protection, China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Commission</td>
<td>Consists of 35 Articles which outline the future of China's green financial system. It expresses the official definition of green finance for the first time. It supports Chinese financial institutions and enterprises to issue green bonds abroad, and guides international funds to invest in our green bonds, green stocks and other green financial assets, and encourages the establishment of joint venture green development fund.</td>
</tr>
<tr>
<td>November 2016</td>
<td>The 13th Five-Year Plan on Eco-Environmental Protection¹⁴⁸</td>
<td>China State Council</td>
<td>Overall plan for the reform of ecological civilization system with a clear proposal to develop green finance.</td>
</tr>
<tr>
<td>April 2017</td>
<td>Guidance on Promoting Green One Belt One Road¹⁴⁹</td>
<td>China Foreign Affairs Agency, Ministry Environmental Protection, National Development and Reform Commission, Ministry of Commerce</td>
<td>General guidance on promoting a green OBOR. Promotes the development of green finance and regards green finance cooperation as one of the five core principles.</td>
</tr>
<tr>
<td>May 2017</td>
<td>OBOR Eco-Environmental Protection Cooperation Planning¹⁵⁰</td>
<td>Ministry Environmental Protection</td>
<td>Proposes a green financial policy formulation which explores the establishment of green investment, financing management standards, a green development fund, and environmental risk management tools.</td>
</tr>
</tbody>
</table>

¹⁴⁸ The 13th Five-Year Plan on Eco-Environmental Protection (“十三五”生态环境保护规划), online: <http://www.gov.cn/zhengce/content/2016-12/05/content_5143290.htm>, accessed on July 13, 2018.
<table>
<thead>
<tr>
<th>Issue Time</th>
<th>Name of Regulation and Policy</th>
<th>Issuing Agents</th>
<th>Main Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2017</td>
<td><strong>Environmental Risk Management Initiative for China’s Overseas Investment</strong>&lt;sup&gt;151&lt;/sup&gt;</td>
<td>The Green Finance Committee of China Society for Finance and Banking, Investment Association of China, China Banking Association, Asset Management Association of China, Insurance Asset Management Association of China, China Trustee Association, and the Foreign Economic Cooperation Office of the Ministry of Environment Protection</td>
<td>Consists of 12 Articles on the disclosure of environmental and social governance information, green finance, and environmental and social protection standards overseas to improve institutions and companies’ capacity for environmental risk management overseas. The regulation especially emphasizes the importance of financial institutions in complying with regulations in China and host countries, with prevailing international standards, and with the adoption of the highest standards where possible.</td>
</tr>
</tbody>
</table>

Author’s Compilation

In addition to the government’s adoption of green finance policies, Chinese financial institutions have signed up for a number of international, regional, and industry-specific initiatives, such as by expanding their cooperation with the UN Environment, the World Bank, the Asian Development Bank (ADB), and other multilateral organizations and international NGOs.<sup>152</sup> Moreover, Chinese financial institutions have employed some voluntary and self-regulatory environmental impact measures.<sup>153</sup> China Exim Bank and China Development Bank (CDB), the major channels for financing foreign investments, have developed their own environmental policy and impact assessments.<sup>154</sup> In addition, several Chinese financial institutions and environmental agencies, such as the Industrial and Commercial Bank of China (ICBC), the People’s Bank of China, and the Ministry of Environmental Protection are raising the

---


sustainability criteria for credit provisions to Chinese companies, including those operating abroad.\textsuperscript{155} In 2017, China Exim Bank signed an agreement with the International Finance Corporation of the World Bank Group to support environmentally sound Chinese investments in emerging markets, particularly in Africa.\textsuperscript{156} Table 2.4 shows a summary of the environmental and social governance frameworks of the Chinese financial institutions.

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>Framework</th>
</tr>
</thead>
</table>
| China Development Bank                 | Joined the UN Environment Financial Initiative (UNEP FI) and required the bank to comply with relevant international norms and national policies.\textsuperscript{159} Participated in the UN Global Compact since 2006 and issued its first CSR report in 2008.\textsuperscript{160} There is no public disclosure of environmental and social security policies. No specific safeguard policy. Issued “China Export-Import Bank Environmental and Social Evaluation Guidance on Loans” in 2008 which requires overseas project developers to complete an


\textsuperscript{160} Ibid.
<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Details</th>
</tr>
</thead>
</table>
| China Export-Import Bank                 | Environmental and social impact assessment before approving the loan.

Issued “China Export-Import Bank Green Credit Guideline” in 2015 to provide specific requirements for strengthening environmental and social risk management of credit projects in the aspects of organization and management, policy system, process management, internal control management, and information disclosure.  


<table>
<thead>
<tr>
<th>Fund</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silk Road Fund</td>
<td>Has not yet established a set of comprehensive, systematic environmental social risk assessment and management standards or policies. Its environmental and social risk management can only be analyzed through its investment and financing projects. ^166</td>
</tr>
<tr>
<td>Silk Road Gold Fund</td>
<td>Pays attention to green and sustainable development to actively assume social responsibility. No specific safeguard policy.</td>
</tr>
<tr>
<td>Green Silk Road Equity Investment Fund</td>
<td>No specific safeguard policy. Committed to the OBOR economic zone for green industry investment, promote the Silk Road along the country and region to improve the ecological environment and the development of green economy.</td>
</tr>
<tr>
<td>China Insurance Investment Fund</td>
<td>No specific safeguard policy.</td>
</tr>
<tr>
<td>China Investment Co., Ltd.</td>
<td>No specific safeguard policy.</td>
</tr>
<tr>
<td>CITIC Co., Ltd</td>
<td>No specific safeguard policy.</td>
</tr>
</tbody>
</table>

Author’s Compilation

This brief summary shown in Table 2.4 shows that Chinese financial institutions are still in the initial stage of integrating environmental and social considerations into their lending policies.


Unlike the international standards, their environmental and social governance instruments do not contain comprehensive and transparent information disclosure mechanisms or grievance mechanisms to ensure affected communities have access to channels to express their concerns and complaints. Moreover, compared to the commercial financial institutions, the policy banks have a relatively developed safeguard framework to protect local environments and social conditions in host countries.

### 2.4.3 Limitations of Current Policies and Regulations

Although the Chinese government has developed a series of ostensibly regulatory measures to regulate Chinese companies’ overseas behavior, many of these administrative regulations and departmental rules are simply guidelines without enforcement power. This means that compliance is essentially voluntary. Only a few of these new regulations take the form of prescriptive regulations or compulsory standards for foreign operations.\(^{169}\) The language of the guidelines is also broad and general, essentially taking the form of a rhetoric statement of objectives - for example, Chinese companies should “adhere to the law to operate honest and trustworthy,” “establish and deepen the sense of social responsibility,” “actively participate in local public welfare activities,” and “encourage overseas companies to regularly publish companies’ environment information.”\(^{170}\) Concrete details on how to make companies achieve these objectives, such as specific constraints, assessments, or follow-up measures, are absent. The government’s documents often set ostensibly high standards for Chinese businesses operating overseas while lacking any implementation and enforcement details.\(^{171}\) In addition, even if the headquarters or head offices of Chinese companies adopt the guidelines and principles, their supervision over the implementation of the principles at subsidiaries in host countries remains questionable.

Due to the voluntary nature of the government’s guidelines, different types of Chinese companies hold different attitudes toward the guidelines. It appears that Chinese SOEs and state-owned

---

\(^{169}\) Interview with director of WWF-China

\(^{170}\) Interview with program officer of China House

\(^{171}\) Interview with project manager of SinoHydro Corporation Limited (Kenya), and staff of China Council for International Cooperation on Environment and Development
financial institutions pay more attention to socio-environmental issues urged by the government’s initiatives, whereas smaller private businesses often take them lightly.\textsuperscript{172} Compared to Chinese private companies, Chinese SOEs tend to have rather long-term investment horizons and have better capacity and awareness to engage in CSR.\textsuperscript{173} Their foreign investment and environmental policy decisions reflect the organizational realities in China, where corporate decisions are partly influenced and directed by national interests. It seems that Chinese SOEs tend to think the CSR guidelines helpful to guide their daily business operations.\textsuperscript{174} One SOE project manager claimed that “as an SOE, we must follow the instructions,” and “it’s helpful for the long-term development of our company.”\textsuperscript{175} However, privately-owned Chinese companies have a vague understanding of these documents and think the contents too broad to be useful in solving problems.\textsuperscript{176}

Explicit monitoring and enforcement mechanisms are a straightforward way to regulate Chinese companies’ overseas performance. Converting Chinese soft CSR policies into hard laws may be desirable. However, there are challenges regarding the implementation of home countries’ and international environmental standards at the local level in host countries based on the current jurisdiction theory. Given the regionalized characteristics of rules and laws, localized contextual conditions, and the specificity of the sociocultural contexts of various countries, the implementation of extra-territorial legislation is difficult to realize.\textsuperscript{177} Under the traditional jurisdiction theory, if companies operate outside of their home state’s jurisdiction, the application and extension of the home country’s laws and standards could be considered extraterritorial

\textsuperscript{172} Interview with project manager of China-Africa Excellency Foundation


\textsuperscript{174} Interview the project managers of CRBC, China Wu Yi Co., Ltd. (Kenya Branch), and China Gezhouba Group Company Limited (Kenya)

\textsuperscript{175} Interview with project manager of China Wu Yi Co., Ltd. (Kenya Branch)

\textsuperscript{176} Interview with program officer of China House

interference in the host country, thus infringing on its sovereignty.\textsuperscript{178} The selective and institutional capacity theory also points out the difficulty of local adaptations of extraterritorial laws and standards due to the relationship between rule regimes and the underlying norms and functions of regulatory institutions at the local level.\textsuperscript{179}

In addition, the legal and social environments in host countries affect the performance of Chinese CSR initiatives. Chinese CSR initiatives are implemented differently in overseas projects due to varying local conditions.\textsuperscript{180} In countries with weak governance and law enforcement, the gap between policy and practice remains a major challenge for Chinese companies’ operations in host countries.\textsuperscript{181} A range of “unwritten” factors such as political connections, low governance capacity, weak law enforcement, and corruption also strongly affect Chinese overseas companies’ operations. As the central government has little control over Chinese overseas companies’ daily operations, the enforcement of CSR programs falls almost entirely on companies without sufficient supervision by the central government. In such cases, Chinese companies can easily take advantage of various kinds of regulatory loopholes, which may lead to non-compliance with environmental and social standards.\textsuperscript{182}

Existing evidence has shown the gap between CSR policies and practices adopted by Chinese overseas companies. Some Chinese overseas companies have interpreted CSR as being only about corporate philanthropy.\textsuperscript{183} Surveys of CSR among Chinese companies in Africa, for example, have found that the most common approach to CSR issues is through philanthropic support focusing on education, health, and the environment.\textsuperscript{184} The majority of Chinese


\textsuperscript{181} Interview with official from National Development and Reform Commission of PRC


\textsuperscript{183} Forstater, Maya et al. (2010), “Corporate Responsibility in African Development: Insights from an Emerging Dialogue” (The Institute of West-Asian Studies of the Chinese Academy of Social Science), online: <https://sites.hks.harvard.edu/m-rcbg/CSRI/publications/workingpaper_60.pdf>, access on November 10, 2016.

\textsuperscript{184} Ibid., 15
companies’ donations are for health and medical provisions, and donations are also directed toward education and training, medical treatment, agriculture and food security, etc. The relatively short history of Chinese foreign investment and the lack of overseas operation experience of Chinese companies further increase the difficulties to promote Chinese overseas companies’ green operations. Although some Chinese overseas companies have begun to pay attention to environmental and social management practices, at present, most of them still do not understand CSR in depth and lack experience in green overseas operations. Many Chinese overseas companies have not established overseas environmental and social protection departments with technical experts to carry out green operations.

2.5 Chapter Summary

By comparing the state-centric approach with the conventional market-based approach, this chapter presents the promises and limitations of the state-centric CSR approach. This chapter surveys the development of the state-centric CSR approach in China through examining the role of the Chinese government in advancing Chinese companies’ CSR practices overseas. It demonstrates that in recent years, the Chinese government has made efforts to promulgate numerous CSR guidelines to promote Chinese companies’ overseas CSR behavior. Under the guidance of the state, Chinese companies (especially SOEs) and state-controlled financial institutions have been increasingly adopting CSR measures in response to the environmental and social protection needs of their host countries. However, there are limitations to China’s state-centric approach to sustainable investment governance. Many guidelines are voluntary in nature without enforcement and assessment measures. In addition, Chinese financial institutions are still in the initial stage of integrating environmental and social considerations into their lending

---


186 As the director of WWF-China noted, “Chinese companies have a relatively short history of foreign investment, with fast development. The accumulation of experience cannot keep up with the speed of investment.” Interview with director of WWF-China


188 Interview with Interview with official from National Development and Reform Commission
policies without comprehensive environmental and social protection frameworks. Overall, the survey of the government’s CSR policies and the financial institutions’ internal rules tells very little about the implementation in practice. The following chapters will put the formal rules in a more concrete setting to see how the policies and rules have been possibly reflected in actual practice.
Chapter 3: China’s Foreign Investment in Africa and Its CSR Implications

After examining the recent development of the Chinese government’s guidelines and policies to promote sustainable overseas investment, this chapter examines the application of China’s state-centric approach to CSR in a particular geographic region – Africa. Africa is a central destination of China’s OBOR Initiative and hence is an important illuminating context for the consideration of the impact of Chinese investment overseas. This chapter first traces the growth of investment by Chinese SOEs and state-controlled financial institutions in Africa under China’s OBOR initiative. It then analyzes China’s investment impact to show the need to promote responsible behavior of Chinese companies in Africa. The government-led investment indicates the importance of the state in influencing social and environmental impact arising from the investment in Africa. This chapter therefore discusses the implications of the state-centric approach to advance Chinese companies’ CSR in African countries. This chapter hence also sets the background for the empirical case study of the SGR project in Kenya in Chapter 4.

3.1 China’s Foreign Investment in Africa under the OBOR Initiative

3.1.1 The OBOR Initiative

China’s entry into the World Trade Organization in 2001 heralded a high level of economic growth for the country. China now is not only a major recipient of foreign direct investment but also an important investor of foreign investment around the world.189 In 2013, Chinese President Xi Jinping announced China’s intention to develop “The Silk Road Economic Belt and the 21st Century Maritime Silk Road,” commonly known as the OBOR initiative. According to the government, the OBOR initiative will enhance inter-regional connectivity worldwide by focusing on five areas: “policy coordination, facility connectivity, unimpeded trade, financial integration, and people-to-people bonds.”190 The OBOR initiative aims at facilitating efficient allocation of

economic resources, integrating and coordinating regional economies in order to create an open and inclusive regional, social, and economic cooperation framework to benefit involved stakeholders. The Chinese government expects that the initiative will help the countries along the route “improve the connectivity of their infrastructure construction plans and technical standard systems”; promote coordinated construction of international highways; and form an infrastructure network of sub-regions in Asia, Europe, and Africa. Specific actions include expanding the scope and scale of financial cooperation and integration with countries along the OBOR routes, such as by working together to operationalize the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (NDB), and the Silk Road Fund to strengthen practical, bilateral, and multilateral financial cooperation.

The OBOR routes will connect over 60 countries, accounting for 60% of the world’s population and a collective GDP equivalent to 33% of the world’s wealth. The influence of the OBOR initiative is already evident in China’s overseas investment flows, which rose 16.3% in the first 10 months of 2015 to $92.5 billion, with OBOR-related investment rising 36.7% to $13.7 billion. Accordingly, China has now rapidly become one of the world’s largest overseas investors and has increasingly encouraged more companies to go abroad. As of the end of 2017,

under an affiliation with the UNDP China, the research team was led by the Ministry of Commerce of the People’s Republic of China and Commission of the State Council of the People’s Republic of China.


195 Ibid.
China’s non-financial outward direct investment amounted to USD $120 billion in 6,236 overseas companies in 174 countries and regions. Figure 3.1 shows the map of the OBOR Initiative.

**Figure 3.1: The Map of the OBOR Initiative**

According to the Chinese government, as China has accumulated rich experience in manufacturing, infrastructure construction and fund mobilization, it can share the experience with countries along the OBOR routes to promote their economic development and industrialization. According to the 2017 UNDP report undertaken by a research team affiliated with the Chinese government, the implementation of the OBOR initiative is expected to bring unprecedented opportunities for infrastructure construction, industrial transformation and

---


upgrades, and trade and investment facilitation.\textsuperscript{199} It expects that the investment cooperation of Chinese overseas companies along the OBOR routes will effectively enhance infrastructure construction in these countries and provide strong support for local economic and social development.\textsuperscript{200}

Africa is a major focus of the OBOR initiative.\textsuperscript{201} Chinese companies may make significant contributions to the economic and social development of African countries, especially in improving infrastructure, upgrading industries, creating jobs, transferring technology, and contributing to social well-being.\textsuperscript{202} China’s foreign direct investment (FDI) in Africa has grown “even faster over the past decade, with a breakneck annual growth rate of 40 percent.”\textsuperscript{203} China’s investment in Africa is likely to expand in the future given China’s surging need to boost external demand by taking advantage of its excess manufacturing capacity.\textsuperscript{204} Figure 3.2 shows


\textsuperscript{204} Yu, Lixin et al. (eds.) \textit{National Strategy: Policy and Investment of “Belt and Road” Initiative} (Zhejiang University, 2016). See also, Chen, Yunan (2018), “Silk Road to the Sahel: African Ambitions in China’s Belt and Road Initiative” (Johns Hopkins SAIS-CARI Policy Brief No.23), online: <https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5b67f63b562fa7f5d579f835/1533539945322/Yunnan+Belt+and+Road+Initiative+and+Emerging+Eurasian+Relations>, accessed on August 8, 2018.
that Chinese FDI flows to Africa continued to grow at a steady rate, reaching $US 3610 million in 2016, from previous levels of $US 1439 million in 2009.205

Figure 3.2: Chinese OFDI Flows to Africa ($US mn)

Author’s Compilation Based on Data from Footnote 207

Chinese companies operate in many sectors of the African economy. Table 3.1 shows the diverse sectors in which Chinese companies have invested in Africa – with concentrations in trade, manufacturing, construction, mining, and agriculture. Chinese companies have rapidly achieved a sizeable market share, especially in manufacturing, construction, and real estate. Moreover, Chinese companies account for nearly 50% of Africa’s internationally contracted infrastructure construction market.206


Table 3.1: Chinese Companies' Investment in Diverse Sectors in Africa

<table>
<thead>
<tr>
<th>Investment by Sector</th>
<th>Market Share in Africa</th>
<th>Annual Revenues in Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>~12</td>
<td>~$60 billion</td>
</tr>
<tr>
<td>Services</td>
<td>~5</td>
<td>~$15 billion</td>
</tr>
<tr>
<td>Trade</td>
<td>~3</td>
<td>~$15 billion</td>
</tr>
<tr>
<td>Construction and Real Estate</td>
<td>~50</td>
<td>~$40 billion</td>
</tr>
<tr>
<td>Others*</td>
<td>~1</td>
<td>~$50 billion</td>
</tr>
</tbody>
</table>

*Others refers to agriculture, utilities, oil and gas, and mining sector.

Source: Adapted from McKinsy & Co. (2017).207

Most countries in Africa have limited domestic financial resources to fill infrastructure gaps and energy shortages. Chinese financial institutions play a vital role in providing financial support for construction projects.208 Since its announcement of the OBOR initiative, China has urged the banks under its control to provide financial support to the OBOR construction projects in Africa. In general, there are three kinds of financial institutions that provide financial support for the infrastructure projects in Africa: Chinese national policy and development banks, including the CDB and China Exim Bank; Chinese central bank; and Chinese state-controlled commercial banks, such as the People’s Bank of China and the ICBC. The Chinese government is a sole shareholder or a controlling shareholder of these banks. These financial institutions and their functions in African investment are summarized and listed in Table 3.2.

Table 3.2: Chinese Financial Institutions Participating in Investment in Africa

| Provides strategic planning consulting, project incubation and other integrated financial services. Up until June 2018, China Development Bank has financed over 50 billion USD to African countries, including |

207 Ibid., 30.
<table>
<thead>
<tr>
<th>National Policy Banks</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Development Bank</td>
<td>About 36.8 billion loans, to mainly support the development of agriculture, manufacturing, infrastructure, civic areas, etc. The cases include the US$50 million loans to the Equity Bank of Kenya, which supported Mataara Tea Factory Expansion Project, Kapkoros Tea Factory Project, Jetlink Logistics Project, the EURO60 million loans to the West African Development Bank to support SMEs in the regions covered by Union Economique et Monétaire Ouest-Africaine, and the US$100 million loans to United Bank for Africa (UBA) to support SMEs in the nineteen countries covered by UBA.</td>
<td>2018.07.13, accessed via <a href="http://www.cdb.com.cn/article/i/jyjl/k/201803/20180302716926.shtml">online link</a></td>
</tr>
<tr>
<td>China Export-Import Bank</td>
<td>Provided loans for more than 1200 projects in 50 countries, including roads, railways, ports construction, electricity, communication industries, etc. According to Fitch Ratings, China Export-Import Bank has provided over US$67.2 billion loans to Sub-Saharan African countries and regions from 2001 to 2010, surpassing the US$54.7 billion loans provided by the World Bank during the same time. Up until the end of August, 2018, the bank had a loan balance of RMB340 billion in African countries, which covered over 600 projects.</td>
<td>2018.07.13, accessed via <a href="http://www.eximbank.gov.cn/tm/newlist/index_343_30120.html">online link</a></td>
</tr>
<tr>
<td>The People’s Bank of China</td>
<td>In 2014, the People’s Bank of China and the African Development Bank (AfDB) set up the co-financing 30-year term “Agriculture Growing Together Fund” with a total amount of US$2 billion, all of which will be offered in loans to projects recommended by AfDB with the first ten years of the fund.</td>
<td>2018.07.13, accessed via <a href="http://www.mofcom.gov.cn/article/i/jshz/rlzykf/201204/20120408048826.html">online link</a></td>
</tr>
</tbody>
</table>

---


As of the end of 2017, Bank of China has set up branches in 20 countries/regions along the OBOR, followed by about 500 major foreign projects with a total investment of more than US$100 billion.\textsuperscript{216} Bank of China, as the first Chinese bank to have a presence in South Africa, opened its Johannesburg Branch in early October 2000, and after that other branches in Zambia, Kenya, Angola, Morocco, and Mauritius. Its present business radiates more than 30 countries and regions in Africa. Bank of China started the first RMB settlement business in Africa in 2010, and was prescribed by the People’s Bank of China as the RMB clearing bank in Africa.\textsuperscript{217}

| National Commercial Banks | Bank of China | Head office sets up OBOR business development leadership group to promote the implementation of OBOR investment projects. Has provided 212 OBOR related projects in total of 67.4 billion dollars.\textsuperscript{218} In 2008, the Industrial and Commercial Bank of China spent US$5.5 billion and acquired 20% shares of the South Africa Standard Bank Group Ltd, the largest bank in Africa. From 2007 to 2017, the Industrial and Commercial Bank of China has financed US$20 billion in Africa and had a loan balance of US$6 billion which covered 106 projects.\textsuperscript{219} |
| China Construction Bank | Has accumulated 268 major projects in OBOR countries, with an investment of about 460 billion US dollars, involving major industries such as electricity, construction, mineral, transportation, oil and gas, and communications.\textsuperscript{220} From 2004 to 2014, China Construction Bank had financed over US$3 billion to support various industry and infrastructure projects in Africa.\textsuperscript{221} |


### Agriculture Bank of China

Common equity fund with a total of 30 billion RMB. Targeted industries include solar energy construction, clean energy development, ecological restoration, and other ecological industries. In 2015, the Agricultural Bank of China and the Congolese government together established the Sino-Congolese Bank for Africa with a total capital of US$100 million, and 50% shares of it is held by the Agricultural Bank of China.

Author’s Compilation

#### 3.1.2 China’s Infrastructure Investment in Africa

As Table 3.1 shows, construction is an important area of investment. It is particularly reflected in infrastructure investment. Inadequate infrastructure holds back Africa’s economic growth and ability to provide sufficient water, electricity, and transportation services to a rapidly growing population, most notably in urban areas. As infrastructure interconnectivity is the precondition for the flow of goods and people, one important aspect of the OBOR is to enhance infrastructure construction so as to achieve interconnectivity and form networks. In January 2015, China and the African Union agreed to put collective efforts into improving Africa’s infrastructure, high-speed railways, aviation, and highways. The Forum on China-Africa Cooperation (FOCAC)

---


Summit is a platform for accelerating the cooperation between China and African states at multiple levels in the infrastructure sector, which has upgraded China-Africa relations to a “comprehensive strategic and cooperative partnership.” In December 2015, China declared that it would cooperate with Africa to promote the development of high-speed railways, expressways, and regional aviation networks.

Chinese infrastructure commitments grew at an average rate of 16% per year from 2012 to 2015 and supported many of Africa’s ambitious infrastructure developments, such as the Mombasa-Nairobi SGR railway in Kenya. Chinese contractors today account for nearly half of Africa’s international engineering, procurement, and construction workforce. In international contracting, Chinese construction companies have a nearly 50% market share and control 42% of World Bank tenders in sub-Saharan Africa by value. In 2016, China announced that it planned to help build a series of transportation grids (i.e., railroad, bridges, and roads) linking African countries. In the same year, the gross annual revenues of Chinese companies’ construction projects in Africa totaled $50 billion.


China’s economic expansion in Africa is carried forward by thousands of companies, including SOEs and non-SOEs. While non-SOEs dominate investment in commerce and manufacturing, the majority of Chinese companies engaging in infrastructure construction in Africa are SOEs.\textsuperscript{235} Six of the 10 largest infrastructure contractors operating in Africa are Chinese SOEs. These are China Communications Construction Company, China Railway Group, Sinohydro Group, China State Construction Engineering Corporation, China Railway Construction Corporation, and Citic Construction Company.\textsuperscript{236} In recent years, the east Africa region in particular has been one of the most prominent beneficiaries of this development, with projects constructed by Chinese SOEs including Lamu Port in Kenya, the Southern Sudan-Ethiopia Transport (LAPSSET) corridor, and the SGR in Kenya. The transport sector has the potential to “connect African countries by reducing the costs of moving people and goods, and integrating markets.”\textsuperscript{237} The major infrastructure projects that have been or scheduled to be undertaken by Chinese SOEs in Africa are listed in Table 3.3.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
Country & Project & Value ($\text{bn}$) \\
\hline
Nigeria & Coastal Railway & 12 \\
\hline
Tanzania & Bagamoyo Port & 7 \\
\hline
South Africa & Modderfontein New City Project & 7 \\
\hline
Kenya & SGR & 3.8 \\
\hline
Cong DRC & Infrastructure for Mines Barter Deal & 6 \\
\hline
Chad & Cha-Sudan Railway & 5.6 \\
\hline
Mozambique & Mphanada Nkuwa Dam and Hydroelectric Station Project & 3.1 \\
\hline
\end{tabular}
\caption{Selected Large Chinese-Invested Infrastructure Projects in Africa}
\end{table}

\textsuperscript{235} Ibid.
\textsuperscript{236} Interview with former general counsel of China Civil Engineering Construction Corporation
In addition, the rise of infrastructure construction in Africa should also be contextualized within the influx of Chinese loans to African countries. China is now the largest bilateral infrastructure financier in Africa. In 2015, Chinese commitments to infrastructure in Africa amounted to $21 billion, which is more than the combined total of the African Development Bank (AfDB), the European Commission, the IFC, and the World Bank. Unlike Western donors, such as the European Union and the United States, which provide aid primarily in the form of aid loans, China has begun to shift from a focus on pure lump aid to new systems where recipient countries receive focused infrastructure building assistance through concessional loans and preferential export credits. For the concessional loans, the Chinese government has designated the Chinese Exim Bank to provide the medium and long-term low-interest loans to developing countries. These loans operate as “government-to-government official development assistance and are provided for projects that generate economic or social benefits”, such as infrastructure

Source: Adapted from Johnston, Lauren (2016).

---


projects. The Chinese government also encourages financial institutions to offer lower interest rates to promote export and investment through preferential export credits. Together with concessional loans, the two preferential facilities are “an arrangement made by the Chinese Government to support other developing countries with concessional funding”. China’s concessional loans and preferential export credits are helpful to transfer China’s manufacturing surplus to Africa and use its machinery, equipment, and export projects to enhance its international competitiveness. This offers China a unique opportunity to promote Chinese services, technologies, and management models overseas. Especially for railway construction projects, a recipient country is usually required to adopt Chinese Railway Technical Standards and/or equipment throughout the construction process under China’s concessional loans.

China’s Ministry of Commerce is in charge of the Department of Foreign Aid, which “oversees projects financed through zero-interest loans and grants and signs off on China Exim Bank’s concessional loans.” The vast majority of loans for overseas companies and large infrastructure projects from China to African countries come from China’s official export credit agencies and policy banks, such as China Exim Bank, and state-owned banks, such as the ICBC. Beginning in 2007, the China-Africa Development Fund has been instrumental in supporting the trade and cooperation between China and Africa. The fund has become the first


244 Ibid., 29.


246 Interview with deputy director of Institute of International Development Cooperation at the Chinese Academy of International Trade and Economic Corporation, MOFCOM.


equity investment arm China established to focus solely on investment in Africa and has managed to provide capital for major projects in Africa. The NDB and Chinese infrastructure initiatives, such as the China-led Africa Growing Together Fund, “are expected to play a significant role ranging from financing to technology transfer.” Figure 3.3 shows that China Exim Bank has been the top provider of loans to Africa between 2000 and 2014.

**Figure 3.3: Chinese Financiers’ Contribution to African Loans (2000-2014)**

![Pie chart showing the contribution of Chinese financiers to African loans.]

Source: Adapted from Hwang, Jy hjong et al. (2016).

### 3.2 The Impact of China’s Investment in Africa

Given the rise of Chinese foreign investment in Africa, it is important to evaluate its impact on Africa. According to the surveys conducted by Pew Research Center, opinions of China and its

---


expanding investment in Africa have generally been positive.252 However, substantial variations in opinions exist across the continent, as shown in Table 3.4. The diverse economic development stages among African states partly explain different opinions on China as a foreign investor. In general, local people held favorable opinions on the economic benefits such as skill transfers and job creation by China’s infrastructure projects.253 The environmental concerns raised by China’s infrastructure construction and natural resource extraction projects receive unfavorable opinions.254 Critics of Chinese companies’ investment activities claim that the primary motivation of Chinese investment in Africa is to extract resources. They also claim that Chinese companies export pollution from their industrial activities to non-democratic African countries with weak rule of law and weak legal institutions or high levels of corruption.255 Given the controversial opinions surrounding China’s investment in Africa, this section analyzes the potential economic, community, and environmental impact of China’s investment in Africa.

Table 3.4: Percent Responding Favorable of China’s Investment in Africa (2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>72%</td>
</tr>
<tr>
<td>Senegal</td>
<td>64%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>63%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>63%</td>
</tr>
<tr>
<td>Kenya</td>
<td>54%</td>
</tr>
</tbody>
</table>


254 Ibid.

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>49%</td>
</tr>
<tr>
<td>South Africa</td>
<td>45%</td>
</tr>
</tbody>
</table>


3.2.1 Economic Impact

At the macroeconomic level, host country governments and local communities in Africa generally acknowledge the contribution of Chinese investments to the economic development of their nations. The economic, trade, and investment cooperation between China and Africa is still in its initial stage and has great potential. These emerging economies and developing countries urgently need opportunities for equal participation in the global economy and governance system.

China’s ample capital and investment to host countries could boost their economic development and trade. A World Bank report shows that development aid from China contributes to improving road construction projects, modernizing power distribution, rural electrification, technical training, and providing medical care and drugs. However, as many of large infrastructure projects are supported through debt-based finance, questions are raised over its sustainability and the rising debt levels of African economies. There are some criticisms that China’s loans to African countries just sink them into financial traps. Loans could also

---


262 Beattie, Alan and Callan, Eoin (2006), “China Loans Create ‘New Wave of Africa Debt’” (Financial Times), online: <https://www.ft.com/content/640a5986-863a-11db-86d5-0000779e2340>; accessed on September 7, 2018. See also, Bavier, Joe (2018), “China Overloading Poor Nations with Debt though Infrastructure Projects” (Reuters),
harm countries like Kenya in the long run because of their lack of transparency. In addition, through concessional loans and debt from the Chinese government to African governments, Chinese companies and banks could also monopolize the complete industry and export chain. As discussed above, infrastructure development is a critical issue for developing countries, especially in sub-Saharan Africa where lacking or outdated infrastructure has become a bottleneck for economic development. Sub-Saharan Africa is currently in desperate need of paved road density, electricity generation capacity, household access to water, and sanitation. The lack of transnational infrastructure in Africa also restricts their import and export businesses, as “the inability of economies to integrate themselves with neighboring countries to promote wider markets continues to be a serious obstacle to trade.” Infrastructure development is therefore expected to be one of China’s greatest contributions to host countries’ economic infrastructure. China’s official policy toward Africa has advocated greater regional economic interconnection and promoted Chinese overseas companies “to participate in transnational and trans-regional infrastructure construction in Africa and provide preferential loans to support infrastructure building in Africa.” Some scholars observe that China’s direct investment in the


construction of roads, bridges, railways, and hydropower has increased local communities’ access to transportation and electricity.\textsuperscript{270} Farrell finds that for World Bank infrastructure projects, there is no significant difference in the quality of work performed by Chinese and non-Chinese contractors.\textsuperscript{271} Burke shows that China’s contribution to infrastructure in Africa comes with several benefits, such as easy access to capital and fast completion of construction with less redundant administrative approval process. The quality of infrastructure construction by Chinese companies is not compromised because of quick completion.\textsuperscript{272} In addition, China’s financing and construction of transport corridors could play a potential role in promoting regional integration.\textsuperscript{273} For instance, the Kenyan SGR project will be expanded into a regional rail corridor connecting Kenya with Uganda, Burundi, and South Sudan. The implementation of transport networks and trade corridors is a key dimension of effective regional integration aimed at facilitating trade and investment within the region.

### 3.2.2 Community Impact

The community impact brought by Chinese companies’ operation in Africa is controversial. There have been allegations against Chinese companies for their failure to localize their


operations, for example, by importing workers from China instead of hiring locally.\textsuperscript{274} According to a study, Chinese laborers and engineers were imported to build infrastructure projects in African countries, which is unhelpful to the unemployment problem in Africa.\textsuperscript{275} Many Chinese companies employ local staff only to engage in very basic physical work without providing them with systematic technical training.\textsuperscript{276} According to Tang, even though Chinese companies hire local labor during construction, they only appoint Chinese managers.\textsuperscript{277} In addition, working conditions in Chinese companies are problematic, often involving health and safety hazards and long working hours.\textsuperscript{278} The labor protection measures of Chinese companies urgently require strengthening.\textsuperscript{279} In addition, cultural and language barriers in communication often result in tensions and conflicts between local employees and Chinese workers or managers. It also leads to the inability of local staff to master more complex labor techniques and use more sophisticated production equipment.\textsuperscript{280} Arsene’s fieldwork in Kampala and Uganda, reveals that tensions between Chinese employers and African workers often arise because employees do not initially understand what their employers expect of them and because Chinese managers do not have adequate English-language skills to communicate.\textsuperscript{281}

Conversely, some other researchers reveal the potential benefits when Chinese companies did employ local manpower. According to recent studies, Chinese investments have contributed to income generation and poverty reduction by creating a considerable number of employment


\textsuperscript{275} Ibid.


\textsuperscript{281} Ibid.
opportunities for the host countries.\textsuperscript{282} According to the UNDP 2017 Report on the Sustainable Development of Chinese Enterprises Overseas Supporting, at the end of 2015, “the total number of employees in overseas Chinese companies was 2,837,000, which included 1,225,000 non-Chinese employees, with an increase of 392,000 compared to the end of 2014.”\textsuperscript{283} This also indicates that Chinese overseas companies have started realizing the importance of localized operations in host countries. According to recent studies, during project subcontracting and procurement, Chinese overseas companies give priority to local personnel and suppliers in order to help local communities increase employment, enhance their functions, and support the development of local, small overseas companies and subcontractors in Africa.\textsuperscript{284} The Business Perception Index survey conducted by Sino-African Centre of Excellence Foundation (SACE) shows that “Chinese companies hire Kenyans for 78 percent of full-time and 95 percent of part-time jobs. Ninety-three percent Chinese companies operating in Kenya reported hiring Kenyan workers.”\textsuperscript{285} The survey concluded that the employment of Kenyans by Chinese companies had grown over time. Chinese overseas companies have started to improve training and advancement opportunities for local workers as well. A recent study shows that comparisons of Chinese


companies and their counterparts in OECD countries conclude that there are no substantial differences in working conditions between Chinese companies and those from other countries.\textsuperscript{286}

### 3.2.3 Environmental Impact

Chinese foreign investment in Africa has been concentrated in environmentally-sensitive areas and carbon-intensive industries. First, Chinese foreign investment tends to flow to ecologically fragile African areas where there is a higher risk of environmental degradation. Second, a large proportion of Chinese foreign investment is located in carbon-intensive industries, such as infrastructure construction, oil and gas extraction, mining, hydropower, timber, and manufacturing.\textsuperscript{287} These two features of Chinese investment cause significant environmental impact in Africa.

Existing literature generally presents a negative picture of the environmental performance of Chinese companies in Africa, particularly in the areas of mining, infrastructure, forestry, fishing, timber and agricultural projects.\textsuperscript{288} As many Chinese companies are developing projects in


countries with weak governance structures, there are also concerns that China is exporting its pollution and environmental problems to Africa through this foreign investment strategy.\textsuperscript{289} Moreover, as China adopts lower environmental standards for its aid and investment projects than multilateral institutions or Western companies, investment recipient countries may lower their environmental and social requirements for Chinese companies.\textsuperscript{290} Furthermore, many Chinese companies operating in Africa are some of the most significant producers of global carbon emissions.\textsuperscript{291} Africa is believed to be the most vulnerable and least able to adapt to global climate change.\textsuperscript{292} As the world’s largest producer and consumer of coal, and as an important actor in addressing global climate change, China faces international scrutiny to improve its environmental performance overseas.\textsuperscript{293}

Specifically, Chinese companies are frequently criticized for the negative environmental impact on African ecosystems when building dams and highways and conducting natural resource


There have been numerous cases of controversial negative environmental impact brought by Chinese companies in African countries. Table 3.5 shows a chronological list of well-known incidents. A high-profile case, for example, is Sinopec’s suspension of oil prospecting in Loango National Park in Gabon due to pressures from NGOs. More recently, in 2012, Chad withdrew five extraction permits and suspended all operations of the China National Petroleum Corporation for violations of environmental regulations.

Table 3.5: Selected Environmental Incidents Caused by Chinese Companies in Africa

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Project in Controversies</th>
<th>Chinese Companies Involved</th>
<th>Incident Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>Sudan</td>
<td>Merowe Dam Project on the Nile River</td>
<td>Sino Hydro; China International Water and Electric Corporation</td>
<td>Although Sudanese authorities had conducted and approved an ESIA, a few international NGOs and institutions insisted that the ESIA was sub-standard.</td>
</tr>
<tr>
<td>2005</td>
<td>Gabon</td>
<td>Oil Prospecting Project in Loango National Park</td>
<td>Sinopec</td>
<td>Conservation groups had pointed out that the ESIA had not been approved by the environment ministry.</td>
</tr>
<tr>
<td>2007</td>
<td>Zambia</td>
<td>Chiman Manufacturing’s Manganese Mine in</td>
<td>Chiman Manufacturing</td>
<td>Zambian government closed Chiman Manufacturing’s manganese mine in Kabwe due to local concerns over air pollution and</td>
</tr>
</tbody>
</table>


297 Zhan, Daojiong. Case Study of Social and Environmental Risk of Chinese Foreign Investment (Peking University Press, 2014)

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Project/Entity</th>
<th>Company</th>
<th>Description</th>
</tr>
</thead>
</table>
| 2010 | Gabon   | Iron Ore Development Project | China National Machinery and Equipment Import and Export Corporation | A Gabonese environmental NGO successfully campaigned against a massive China Exim Bank-supported iron ore development project that threatened a national park.  
299 | |
| 2012 | Zambia  | Collum Coal Mine Industries in Sinazongwe | Collum Coal Mine | Zambian authorities shut down Chinese-owned Collum Coal Mine Industries in Sinazongwe for establishing sub-standard working conditions and failing to implement environmental and safety regulations.  
301 | |
| 2012 | Chad    | Oil Exploration Site in the South Western Town of Koudalwa | China National Petroleum Corporation | Chad withdrew five extraction permits and suspended all operations of the China National Petroleum Corporation for violations of environmental regulations.  
302 | |

Author’s Compilation

3.3 What Are the Incentives for China to Engage in CSR in Africa?

As discussed in Section 2.2.2, the Chinese government has political, economic and social incentives to promote CSR internationally. The incentives may be enriched by African’s context. As the discussion above illustrates, Chinese investment and industrial activities in Africa have triggered controversies over their social, economic and environment impact. Accordingly, the Chinese government and its affiliated entities - including SOEs and state-owned banks - may be motivated to promote CSR in Africa. This section analyzes the possible rationales for Chinese companies and financial institutions to promote sustainable investment in Africa.


3.3.1 Reducing Conflicts and Litigation Risks

Environmental and ecological conditions in Africa are complicated and volatile. Some areas have fragile and sensitive eco-environments that could cause severe natural disasters such as sandstorms, droughts, and erosion. Eastern Africa in particular has been suffering from prolonged droughts, hailstorms, extreme flooding, and other climate events in recent years.\(^{303}\) These climate events are compounded by local environmental degradation caused by foreign investment, such as habitat loss, pollution, and deforestation.\(^{304}\) Chinese infrastructure construction projects in Africa, which mainly focus on the construction of railways, container ports, and power plants, could further exacerbate these existing vulnerabilities and introduce additional risks. As important actors in international environmental governance and addressing global climate change, Chinese companies are facing international scrutiny to improve their environmental performance overseas. International environmental NGOs have begun to apply legal pressure on companies in order to influence their environmental behaviors and urge them to operate in a more sustainable way.\(^{305}\) To avoid conflicts regarding the negative environmental and social impact, Chinese infrastructure companies have incentives to develop infrastructure in African counties in an environmentally-friendly and socially-responsible way.

The improvement of Chinese overseas companies’ environmental and social behavior can also help to avoid regulatory violations in host countries. The traditional impression of Africa’s environmental governance is that many African countries attach a low priority to environmental and social protection, and have bad records for countering corruption. In practice, African countries’ approaches to environmental protection vary.\(^{306}\) Some countries have “impressive legislation in place while others are lagging behind.”\(^{307}\) For example, countries such as Ethiopia,

---


307 Ibid.
Mali, Mozambique, Zambia have relatively well-developed environmental legislation and implemented strategies and laws to support sustainable development.308 Kenya also has a relatively developed environmental protection mechanism (see Chapter 4 for more details) due to the country’s heavy reliance on nature tourism and international environmental organizations’ monitoring. Due to the negative environmental impact brought by foreign investors, protection of the environment has become a particularly high priority for African governments.309

To promote sustainable development, many African countries have committed to transform their consumption and production processes and practices by embedding sustainable development into their legal system in order to protect the natural resources and environment for the current and future generations.310 This shift towards a green economy has been reaffirmed by many different African initiatives, and there is now a growing awareness of the importance of transitioning to a green economy.311 In addition, in response to the Intended Nationally Determined Contributions under the United Nations Framework Convention on Climate Change, many African countries have required foreign investors to reduce their industrial carbon emissions.312 The regulatory authorities of host countries in Africa may continue to intensify their monitoring, assessment, and management of environmental and social considerations. Stricter environmental regulations and policies therefore pose a threat to the survival of Chinese high-polluting infrastructure

308 Ibid.
projects overseas, and this will in turn affect the financial institutions that have provided loans to these companies.

In addition, Chinese companies may also face pushback for their lack of attention to protecting the interests and welfare of local communities in host countries. The historically unequal distribution of resources, revenues, and compensation as well as communication gaps and misunderstandings between the government, companies, and local communities have exacerbated the political, cultural, and economic marginalization of local communities and triggered conflicts. Chinese overseas companies often face complex social risks and challenges in host countries, such as a lack of social acceptance or inclusiveness, inadequate regard for labor and working conditions, land acquisition and compensation, localized operations and management. However, Chinese companies generally tend to invest more energy in building relations with the government instead of paying attention to economic benefits for landowners in Africa. These actions would further destabilize relationships and cause new internal divisions over access to wealth, creating a vicious cycle that ignites, prolongs, and exacerbates conflicts between interested parties.

Given the increasingly strict domestic regulation from host countries and potential social conflicts during the investments in host countries, Chinese overseas companies are exposed to the risk of liability and litigation. As multinational companies have encountered civil and criminal litigations worldwide for their irresponsible behavior, it is just a matter of time before

---


316 Interview with project manager of WWF-Africa

317 Han, Xiuli. Study on Chinese Companies on Environmental Protection during Overseas Investment (Law Press China, 2013), 121-127.

318 For example, in the case of Texaco Oil Company and Chevron vs Lago Agrio Plaintiffs illustrates the disputes over environmental pollution and civil health, and investors were prosecuted by victims’ organizations in the Federal Court of New York and in Ecuador's domestic courts. As one of the world biggest environmental litigation
Chinese companies will encounter lawsuits, if they do not handle social and environmental issues properly. As mentioned earlier, the negative environmental and social impact brought by Chinese companies have drawn much attention form regulatory authorities in some African countries. Potential legal suits regarding land acquisition and relocation, labor protection, and environmental protection may push Chinese companies to pay attention to integrating environmental and social protection elements into their daily operations.

3.3.2 Reducing Economic Losses

Chinese overseas companies and financial institutions conforming to a higher global environmental standard can also reduce economic losses and achieve lower lending risks during their operations in Africa. Current research has shown that it is in the companies’ interest to minimize activity that may have negative impact on the environment. Investors have recognized that if there are social and environmental risks or concerns, companies that successfully and effectively manage these risks through effective self-regulation will generate higher returns on investment capital. As discussed in Section 3.3.1, as African countries are strengthening their social and environmental regulations, Chinese companies in violation of the regulations may face an increasing risk of civil claims and criminal fines. Moreover, negative publicity from even just one project could threaten Chinese companies’ business future access to resources and markets in Africa.

---


320 Analysis of a sample of 89 manufacturing and extracting companies drawn from the Standard & Poors 500 Index found that those companies choosing to follow their own strict global environmental standard had an individual value approximately $10.4 billion higher than those companies that met only the less stringent US legal requirements. See, Dowell, Glen et al. (2000). “Do Corporate Global Environmental Standards Create or Destroy Market Value?” 46(8) Management Science 1059-1074. See more, Blaconniere, Walter and Patten, Dennis (1994). “Environmental Disclosures, Regulatory Costs, and Changes in Firm Value.”18(3) Journal of Accounting and Economics 357–377.

In recent years, socially responsible investing (SRI) has made inroads into Africa, particularly in the three major economies including Nigeria, Kenya and South Africa.\textsuperscript{322} The assets under SRI management in the three economies grew to $678 billion USD.\textsuperscript{323} SRI investors only invest in companies that effectively govern their impact on climate change, human rights, social interests, and the environment.\textsuperscript{324} With the development of SRI, companies that have better environmental conservation practices in their operations may attract more capital from private and multilateral financial institutions.\textsuperscript{325} Chinese companies can use the environment as a strategic competitive advantage, by adopting higher environmental standards to help companies gain financial access and greater acceptance and access to markets in African host countries, and improve their public images relative to their competitors in Africa.

In addition, promoting Chinese companies’ CSR in Africa could also help Chinese financial institutions reduce lending risks, such as valuation risk and credit risk.\textsuperscript{326} Chinese financial institutions have come to realize that environmental and social risks are potential causes of volatile markets and financial instability.\textsuperscript{327} Chinese financial institutions’ investment in high pollution-risk projects would therefore increase their lending risks and affect their financial returns. As China’s infrastructure projects in Africa are handled mainly by SOEs with financial support from China’s state-owned banks, a financial loss for an infrastructure project overseas equals a financial loss for the Chinese government.\textsuperscript{328} Thus, to maximize the returns on their

---


\textsuperscript{323} Ibid., 17.


\textsuperscript{328} Interview with official from National Development and Reform Commission
investments and to reduce the potential damage to state assets, Chinese companies and state-owned financial institutions have an incentive to ensure that environmental and social risks are adequately addressed and enhance their environmental behavior during foreign investment activities in Africa.

3.3.3 Protecting Political Image

Chinese infrastructure and development projects undertaken by China’s SOEs with financial supports from state-controlled financial institutions are often seen as a form of soft power designed to win local support for China’s economic policies and diplomatic positions internationally. As most of the Chinese companies engaging in infrastructure construction in Africa are SOEs, their behavior may be ultimately traceable to the Chinese government. In particular, Chinese companies’ expansion in Africa under the sponsorship of the Chinese government has attracted the accusation that China is becoming a new colonial power in Africa.329 Especially, China’s investment on the continent mainly involves in natural resources exploitation that can result in serious environmental consequences. The way Chinese companies manage local employees has also raised the social exploitation concerns. As discussed previously, the managerial echelon of Chinese companies operating in Africa is dominated by virtually all Chinese and local African employees are hired only to work at the lower levels. Moreover, the ostensibly generous financial aids provided by the Chinese government and financial institutions have been criticized for creating a deep financial trap that makes African countries subordinate to China’s control.330 In the face of “neo-colonialism” allegations in Africa, the Chinese


government and Chinese companies may have strategic incentives to alleviate the concerns through CSR practices and thus improve China’s political image in the international community.

3.4 What is the Relevancy of China’s “State-Centric” Approach to the African Context?

As discussed above, Chinese companies may have incentives to engage in CSR in Africa for a host of reasons. However, CSR engagement does not mean it has to be through the state-led approach. Many Western multinational companies operating in Africa, for example, have a wide range of CSR activities in Africa by following the conventional market-based approach. Thus, it raises an important question: Is there any particular significance of the state-centric approach in the African context to make Chinese companies engage in CSR?

As discussed in Chapter 2, the effectiveness of the market-based CSR approach entails active NGOs as well as a range of educated and responsive information users including consumers and investors. It relies on market pressure to force companies to engage in CSR. The market pressure may come locally and internationally. In many African countries, the local market pressure has not become a sophisticated force to make companies integrate CSR into their daily business management. Existing empirical research has shown that the market-based CSR approach has made African companies engage in CSR only in a very superficial manner such as by treating it as public relations and philanthropy. In this regard, the international market force is particularly important. The international market force may come from multinational companies’ home-country market. Consumers and investors in the multinational companies’ home country market take actions in response to irresponsible behavior of the multinational

---

companies. A well-known example is that the anti-apartheid shareholder activism in the 1980s in the U.S. to pressure U.S. companies to divest from South Africa.\textsuperscript{332} Led by institutional investors from religious and public institutions, apartheid-minded investors used shareholder resolutions to pressure U.S. companies to curtail their investment in South Africa.

The home-country market pressure has been more observable in the West than in China. To date, China’s public has not demonstrated much particular concerns and corresponding reactions to irresponsible overseas behavior of Chinese companies. Chinese civil society and market remain focused on domestic CSR issues. In this regard, the compliance pressure from the state-led approach may be a substitute for the home-country-market pressure in the Western context. The state as a home-country regulator and a major international investor may exert great power over Chinese companies operating in Africa. China’s state-centric approach may be a complement to the local albeit immature market pressure in Africa as well as a substitute for the home-country market pressure.

Meanwhile, China’s state-centric approach may aggravate the “neo-colonialism” suspicion in Africa. As discussed above, the pervasiveness of state control over Chinese overseas SOEs that dominate infrastructure and extractive sector projects in Africa has already raised the fear that Chinese investments are to realize China’s neo-imperialist ambitions. The state-centric approach emphasizes “top-down” control instead of “bottom-up” community engagement. Under the state-centric approach, local priorities would not been adequately reflected in Chinese companies’ CSR policies and practices.\textsuperscript{333}

Moreover, the Chinese government and its affiliates are known for corruption and ill transparency. It raises concerns on how China’s state-centric approach may be effective to protect disadvantaged local people in Africa where there is a high level of corruption as well.\textsuperscript{334}


The lack of transparency of China’s state-centric approach could further cultivate corruption and deepen the concern that Chinese foreign investment always goes to African countries with weak rule of law and high level of corruption.

3.5 Chapter Summary

This chapter examines the contexts, motivations and reasons for Chinese companies and financial institutions to promote sustainable investment in Africa. The Chinese government and its affiliates may want to engage in CSR in Africa to avoid potential legal liabilities and economic losses as well as to improve the international reputation and political image. This chapter also analyzes the promises and concerns of the state-centric approach in the particular context of Africa. China’s state-centric approach may potentially complement the market-based approach to better advance Chinese companies’ CSR in African countries. However, the top-down nature of the state-centric approach may lack sufficient considerations of true needs of African local communities. It could aggravate the suspicion of Chinese “neo-colonialism” in Africa. The corruption and transparency problems of the Chinese government and its affiliates raise doubts how the state-centric approach may effectively protect local communities in Africa where it has its own serious corruption problems as well. The next chapter will provide a case study to more concretely contextualize the promises and concerns of the state-centric approach raised in this chapter.

Chapter 4: The SGR Project in Kenya as a Case Study

While Chapter 3 has provided a general assessment of the potential impact of China’s OBOR initiative across Africa, it remains important to remember that Africa is not a homogenous bloc and African countries are quite different in their historical, political, legal, social and environmental backgrounds. Even within a country, there may have regional differences. Furthermore, each project may have features not shared by others. In other words, country-specific and project-specific attributes should be taken into account.

Accordingly, this chapter empirically analyzes the role of the state-centric CSR approach in the SGR project in Kenya. First, it situates Kenya’s importance within the overall landscape of Chinese infrastructure projects in Africa. Second, it briefly discusses Kenya’s political, economic, social and environmental environments, which provides contextual information for better understanding the SGR project. Third, it focuses on the details of the SGR project. The analysis is based on information collected from my six-month long fieldwork in Kenya through face-to-face and semi-structured interviews between September 2016 and February 2017. A total of 39 interviewees participated. Specifically, interviews were conducted with Chinese and local specialists, government officials from Kenya and China, managers from the CRBC Kenya branch, two locally-elected county government officials of affected counties, staff members of environmental NGOs and media outlets in Kenya and China, officers of UN Environment in Kenya, (project) managers and officers at branch operations of Chinese companies, and project managers of China Exim Bank. To better represent the local communities’ voices and reflect their opinions on the SGR, the elected government officials of Mombasa and Kajiado Counties were interviewed on the assumption that they represent the interests of their people. In addition, liaison officers of the two counties who were born and raised in the area, and thus have experience and familiarity with local NGOs, governments, and the community were interviewed. Lastly, representatives from six NGOs in Kenya and China were interviewed to better reflect diverse opinions on the impact of the SGR.
4.1 The Importance of Kenya in China’s OBOR Initiative

I selected Kenya as a case study because of its increasing importance in Africa and its increasing level of cooperation with China under the OBOR initiative. Within the context of the OBOR initiative, China is using Chinese companies and financial institutions to strengthen its relationship with Kenya and using that relationship as a stepping-stone to increase its presence in eastern Africa. China’s infrastructure construction in Kenya aims to facilitate its trade and investment in East and Central Africa. This section provides an overview of China’s investment, especially in infrastructure construction, in Kenya.

4.1.1 China’s General Investment in Kenya

As one of Africa’s four largest economies, Kenya is China’s key partner in Africa. China views Kenya as a “gateway to East African region and is a focal point in terms of China’s trade and economic strategy in Africa” under the OBOR initiative. China-Kenya cooperation has been at the forefront of China-Africa cooperation. Since Kenya and China established their formal relation in 1963, the relation between the two countries has continued to develop. In recent years, Kenya and China have steadily increased mutual political trust, increasing cultural and economic exchanges in infrastructure, energy, technology, youth employment, and entrepreneurship. According to a World Bank study, Chinese companies “have taken interest in more than natural resources in Kenya,” and the size, operations, and financing of Chinese companies are quite diverse.

---


337 Interview with an official of Chinese embassy in Kenya

In recent years, China’s economic presence in Kenya has risen rapidly. China is a leading source of Kenya’s FDI. Figure 4.1 shows the investment flows from China between 2003 and 2012. China’s FDI has grown rapidly. A big jump of Chinese FDI in Kenya took place between 2009 and 2010, increasing by 261%. Figure 4.2 shows that China’s FDI represents a large share of Kenya’s total FDI. Moreover, in 2015, the number of ongoing engineering projects contracted by Chinese companies has “grown to 172, reaching total revenue of $9.5 billion, an increase of 173%. There are 48 newly contracted projects, with revenue of $2.25 billion, reaching an increase of 127%.” In May 2017, during the OBOR International Cooperation Summit, President Xi and President Kenyatta decided to further enhance the China-Kenya relationship, leading to the prime period of bilateral relations between the two countries.

**Figure 4.1: Kenya’s FDI Inflow from China (2003-2012)**

![Graph showing Kenya’s FDI Inflow from China (2003-2012)](source: Sanghi, Apurva and Johnson, Dylan (2016)).

---


Figure 4.2: China’s FDI Share of Kenya’s Total FDI (2003-2012)

Source: Sanghi, Apurva and Johnson, Dylan (2016).\textsuperscript{343}

4.1.2 China’s Infrastructure Investment in Kenya

China has significantly increased investment in infrastructure projects in Kenya, mainly in projects related to energy generation, power distribution, rural electrification, and railway construction.\textsuperscript{344} During Premier Li Keqiang’s visit to Africa in 2010, Li proposed the construction of high-speed railways as well as highways and regional aviation networks and other infrastructure. Furthermore, China’s financial institutions are actively involved in Kenya’s infrastructure construction by providing loans.\textsuperscript{345} China’s aid to Kenya is almost entirely in the form of loans, mainly provided by China Exim Bank.\textsuperscript{346} Chinese financial institutions provide the single largest bilateral infrastructure financial assistance source in Kenya.\textsuperscript{347} The projects with financial assistance from China mainly include the SGR, the Olkaria IV drilling project, the

\textsuperscript{343} Ibid.
\textsuperscript{344} Interview with counselor of the Economic and Commercial Councilor’s Office of the Chinese government to Kenya
\textsuperscript{347} Interview with the director of Chinese Academy of International Trade and Economic Corporation, MOFCOM
Nairobi-Thika project, and the Two Rivers Shopping Mall project. The Chinese government gave a total of KES 20.6 billion in loans for development in the fiscal year ending in 2015. Table 4.1 shows the funding and contractor details of Chinese infrastructure projects as well as recent ongoing infrastructure projects funded by China in Kenya. By funding Kenyan infrastructure projects through bilateral lending, China help contribute to Kenya’s realization of its Vision 2030 and help accelerate economic growth in the country.\footnote{Interview with project manager of China-Africa Excellency Foundation}

\begin{table}[h]
\centering
\caption{Funding and Contractor Details of Selective Chinese Infrastructure Projects in Kenya}
\begin{tabular}{|c|c|c|c|c|}
\hline
Year & Project & Contractor & Project Cost & Funding \\
\hline
2015 & Emali-Oloitoktok & Synohydro Corporation Ltd (SOE) & 4.2 billion & BADEA/OPEC Fund/Gok \\
\hline
2015 & Southern Bypass Roads Project & CRBC (SOE) & 16.9 billion & China Exim Bank/GoK \\
\hline
2014 & Mombasa-Nairobi Standard Gauge Railway & CRBC (SOE) & 3.8 billion & China Exim Bank/GoK \\
\hline
2014 & Olkaria IV Geothermal Field Production Wells Drilling Project & Great Wall Drilling Company of China (SOE) & 7.5 billion & China Exim Bank/GoK \\
\hline
\hline
2014 & Kenyatta University Teaching, Research and Referral Hospital & China Jiangxi Company (SOE) & 9.85 billion & China Exim Bank/GoK \\
\hline
2012 & Marsabit-Turbi & Jiangxi Zhongmei Engineering Co. Ltd (SOE) & 13 billion & AfDB/GoK \\
\hline
\hline
\end{tabular}
\end{table}
4.2 Kenya’s Institutional Environments

As Section 4.1 shows, Chinese SOEs and financial institutions have been actively involved in infrastructure construction projects in Kenya. To better understand the CSR implications of the infrastructure projects, this section will provide a general introduction of Kenya’s institutional environment. A better understanding of the political, economic, social and environmental conditions in Kenya helps understand the tensions and investment risks associated with the SGR project.

4.2.1 Kenya’s Political and Social Conditions

Kenya has a population of approximately 50.9 million people by January 2017. The five largest native ethnic groups are “the Kikuyu (22%), the Luhya (14%), the Kalenjin (12%), the Luo (13%), and the Kamba (11%).” Kenya is a presidential representative democratic republic and the President is both the head of state and head of government. The politics in Kenya has long been influenced by ethnicity and historical tribal conflicts. From 1920 to 1963, Kenya was under the rule of the British colonial government, which adopted a “Divide and Rule” approach to governance. This entailed the compartmentalization and separation of the different ethnic communities and locked each group in its own reserve to weaken intermingling among many communities in Kenya. Since independence in 1963, Kenya’s politics has been dominated by two political parties, namely the Kenya Africa National Union that is a Kikuyu and

---

351 Mungai, Mbugua et al. (eds). (Re)membering Kenya: Identity, Culture and Freedom (Twaweza Communications Ltd, 2010).
Luo alliance party, and the Kenya African Democratic Union, which consists of other small tribes.\textsuperscript{354} This two-party situation has colored the current system of tribal politics in the country.\textsuperscript{355} Currently, the “tribe” factor is the most important element in politics.\textsuperscript{356}

Because of these historical and political reasons, there have been tensions within and between local communities, ethnic groups, and socioeconomic groups; these tensions have been exacerbated by foreign investment. In particular, land issues have been politically sensitive in Kenya for decades. Kenya’s land ownership is complex, involving political, cultural, and religious factors. The ethnic identity of the Kenyan people shows a strong association between people and the land. The local communities, especially the ethnic groups, reserve ownership of the land and resources in their area.\textsuperscript{357} The land is also where ethnic groups’ identities come from.\textsuperscript{358} In many cases of construction or natural resource extraction, land compensation and resource/revenue distribution have been a long-standing source of grievance. Acquisitions of community and private lands trigger conflicts over involuntary resettlement. These conflicts between state ownership rights and rights governed by customary law illuminate the subtle power relationships between states, local authorities, and landowners that reinforce the inequitable distribution of resources, revenues, and compensation to displaced communities.\textsuperscript{359} The complex and vague land ownership system in Kenya is an investment challenge not only for Chinese companies but also for companies from other countries. Without careful consideration of Kenya’s social and cultural conditions throughout construction, land disputes can easily become an obstacle to the development of Chinese infrastructure projects in Kenya.

\textsuperscript{354} Ibid.
\textsuperscript{355} Ibid.
\textsuperscript{356} Spear, Thomas et al. (eds.). \textit{Being Maasai: Ethnicity and Identity in East Africa} (Oxford: Jame Currey Ltd, 1993).
\textsuperscript{357} Ibid.
\textsuperscript{358} Interview with head manager of China Daily, Africa Station
\textsuperscript{359} Mungai, Mbugua et al. (eds). \textit{(Re)membering Kenya: Identity, Culture and Freedom} (Twaweza Communications Ltd, 2010).
4.2.2 Kenya’s Economic Development

Kenya has played an important role in the eastern and central African economy due to its relatively well-established economic base and outstanding geographic location. In recent years, with the east African regional integration, Kenya attracted foreign investors. According to the 2018 Economic Survey Report launched by the Kenya National Bureau of Statistics (KNBS), Kenya’s economy expanded by 4.9 per cent in 2017 and 5.9 per cent in 2016. The main sectors driving the economy were agriculture and forestry, wholesale and retail trade, transport and communication, manufacturing and financial intermediation. In 2007, the Kenyan government formulated Vision 2030 to focus on three key political, economic, and social areas to promote Kenyan industrialization. Vision 2030 outlines the need to provide and expand Kenya’s infrastructure so that the country can be extensively connected by an excellent network of roads, railways, ports, airports, and telecommunications. According to Deloitte’s research, in 2015, Kenya’s infrastructure projects ranked first in east Africa, with projects focusing on roads, ports, energy, and water.

Kenya’s location implies the significance of transport infrastructure development. Investment in Kenya’s transport infrastructure linking it to neighboring countries is expected to facilitate regional integration and investment, trade, and economic advancement. However, there is a physical infrastructure deficit in Kenya. African’s infrastructure was constructed with a “colonial external extractive paradigm that focused on extracting resources for the benefit of the home country,” and did not sufficiently focus on “internal infrastructure development and networked

---

363 Ibid.
connectivity”.\(^{366}\) In the post-colonial era, a lack of capacity and underinvestment by post-colonial African states led to the deterioration of existing infrastructure and the insufficient construction of new infrastructure. This lack of networked infrastructure has contributed to economic isolation in sub-Saharan Africa.\(^ {367}\) Infrastructure networks are also an essential element of regional integration on the continent.\(^ {368}\) Connecting these areas is clearly the key infrastructure task at hand for the Kenyan government to realize the goals of Vision 2030 and promote Kenya as a stable geographical gateway to Africa.

Meanwhile, some economic and social problems hold back Kenya’s long-term development. Unemployment and poverty affect a large number of Kenyan people.\(^ {369}\) About 45% of Kenyans are below the poverty line.\(^ {370}\) The 2015 unemployment rate in Kenya was roughly 11%, and the total rate of youth (ages 14–25) unemployment was about 22%.\(^ {371}\) The livelihoods of indigenous peoples still depend on natural rangelands through traditional pastoralism, and these groups face challenges such as land pressure and an undeveloped livestock market.\(^ {372}\) At the same time, corruption in Kenya is one of the biggest obstacles for foreign investors’ operations. Kenya ranks 145 out of 175 in Transparency International’s corruption-perception index.\(^ {373}\) Chinese companies identify corruption as the most significant obstacle to conducting business in Kenya.

---


\(^{372}\) Interview with government official of Kajiado County

According to a survey by SACE, 53% of respondents said corruption was a “very significant obstacle” and 15% mentioned corruption as a “significant obstacle.”

4.2.3 Kenya’s Regulatory Environment for Environmental and Social Protection

Kenya is rich in natural resources and biodiversity with a wide range of natural ecosystems, including arid and semi-arid areas, savannas, and forests. The country has over 35,000 known species of flora and fauna, for which remarkable conservation efforts have been made. Kenya is also home to 53 national and international protected areas, including five biosphere reserves, four Ramsar sites, and three world heritage sites. Kenya is also rich in wind, solar, and geothermal energy. The Great Rift also boasts the largest storage of geothermal energy in east Africa. The economic importance of its natural environment, especially to tourism, leads to the Kenyan government and local communities attaching great importance to environmental protection.

Given the significance of natural resources and environment to Kenyans, the regulatory authorities of Kenya have intensified the monitoring, assessment and management of environmental and social considerations. Kenya’s legal framework is quite well developed and addresses many of the most important challenges facing environmental management. As the UN Environment headquarters and many international environmental organizations are based in Kenya, the external supervision from international organizations pushes the Kenyan government to attach importance to environmental protection. Green growth in Kenya has its roots in the country’s constitution, which prioritizes a clean and healthy environment and seeks to increase and maintain forest cover for at least 10% of its land area. The need for environmental protection

377 Interview with officer of UN Environment
is also highlighted in Vision 2030 to achieve a clean, secure, and sustainable environment by 2030.378

The Kenyan government has put a wide range of policy, institutional, and legislative arrangements in place to regulate investment projects and associated activities to minimize negative impact on the environment and the socioeconomic well-being of people. The National Environmental Management Authority (NEMA) along with other lead agencies like the Kenya Wildlife Service (KWS), Kenya Parks Service, and the Water Regulation Management Authority are regulatory authorities responsible for environmental protection in Kenya. Importantly, the 2010 Constitution of Kenya gives the environment a prominent place in its structure.379 Kenya has a comprehensive legal framework on land expropriation to protect the interests of landowners.380 Specifically, in 2011, the Kenyan Parliament passed the Environment and Land Court Act to ensure the court retains original and appellate jurisdiction over disputes relating to environmental planning and protection, trade, climate issues, land use planning, and mining minerals.381 Legislation, such as The National Land Commission Act382, the Prevention,
Protection and Assistance to Internally Displaced Persons and Affected Communities Act\(^ {383}\), has also been enacted to protect the social rights of local people and communities who may be affected by overseas investment.

Kenya’s environmental and social protection regulatory framework is perceived as a significant reason for Chinese companies to pay attention to social and environmental performance. Although there are many factors that weaken the implementation of Kenyan laws and policies, such as low enforcement capacity among government institutions, weak rule of law and corruption, the interviewed project managers of Chinese SOEs in Kenya reported that local environmental regulations are quite strict.\(^ {384}\) They perceived compliance with Kenya national laws as an essential way to reduce operational risks, and protect themselves from environmental and labor disputes, or punitive measures by local government authorities.\(^ {385}\) Local environmental NGOs in Kenya and international organizations have also begun to urge Chinese companies to operate sustainably.\(^ {386}\) As discussed in Chapter 3, environmental and social litigation risks can potentially hurt Chinese companies’ economic performance and reputation. Kenya’s existing regulatory environment presents some legal risks that cause Chinese companies to adopt responsible investment strategies.\(^ {387}\)

4.3 The History and Impact of the SGR Project

As part of China’s OBOR initiative, China aims to use Kenya’s SGR project to gain access to trade and investment in eastern Africa. It is a railway construction project undertaken by CRBC. Like other Chinese infrastructure projects in Africa, the SGR has sparked controversy for its

---


\(^ {384}\) Interview with project managers of Great Wall Drilling Company of China National Petroleum Corporation, Power China (Kenya), China Gezhouba Group Company Limited (Kenya), SinoHydro Corporation Limited (Kenya) and CRBC.

\(^ {385}\) Ibid.

\(^ {386}\) Interview with project manager of WWF-Africa; interview with program officer of China House; interview with official of UN Environment

\(^ {387}\) Interview with director of WWF-China
community and environmental impact. This section introduces the background and impact of the SGR project.

### 4.3.1 History of the SGR

Kenya’s existing narrow gauge railway network was in a poor state and unable to meet Kenya’s increasing transportation needs. This situation not only puts huge pressure on Kenya’s railway system, but also increases freight costs, which has a negative impact on the development of regional trade. Therefore, Kenya, Uganda, Rwanda, Burundi, South Sudan, Tanzania, and Ethiopia have agreed to construct more than 10 new railways in the region in the next 12 years to promote regional economic growth.\(^{388}\) Since its commencement, the SGR project has received great attention from the Kenyan government and people. It is Kenya’s first railway in nearly a century and a flagship project of Vision 2030. It is the first segment of the railway network in east Africa and a model project of “high-speed railway network, highway network, regional aviation network, and industrialization” in Africa.\(^{389}\)

![Figure 4.3: Proposed SGR Network](https://static1.squarespace.com/static/5652847de4b033f56d2bde29/t/58136e42b3db2ba8eaf87cbb/1477668419649/kenya+v3.pdf)
The contractor for the SGR is CRBC, a subsidiary of the China Communications Construction Company (CCCC), which is ultimately controlled by the Chinese central government. The CCCC is a leading transportation construction company with more than 60 wholly-owned and controlled subsidiaries. CRBC is one of China’s first large companies with a presence in international contracting markets. CRBC’s office in Kenya has been established for over 30 years. It is committed to the construction of large-scale infrastructure in Kenya, including roads, bridges, ports, and railways. In May 2014, during his visit to Kenya, Premier Li Keqiang witnessed the signing of a USD $3.8 billion contract for the SGR between CRBC and the Government of Kenya. Due to increased demand for quality and affordable transport, telecommunications, energy, transport, water and sewage, and social services, Kenya enacted the Public Private Partnerships (PPPs) Act in 2013, which paved the way for capital and infrastructure projects to gravitate toward PPPs. Eighty-five percent of the project’s funding came from China Exim Bank, while Kenya provided 15% in co-financing. Construction of the Mombasa-Nairobi SGR project started in October 2014 and finished on May 31, 2017. From June 2017 until the end of June 2018, the SGR transported more than 1.3 million travelers and more than 60,000 containers.

---

391 CRBC specializes in “the contracting of domestic and international projects for roads, bridges, ports, railways, airports, tunnels, water conservancy, municipal works and dredging, and also engages in investment, industry, trade, leasing and service for over 50 years. It has set up branches in more than 50 countries and regions in Asia, Africa, Europe and America”. For more information on CRBC, online: <http://www.crbc.com/site/crbcEN/index.html>, accessed on August 9, 2016.
392 More information on CCCC, online: <http://en.ccccldt.cn/>; accessed on August 9, 2016.
4.3.2 Concerns over the SGR Project

The development of the SGR is expected to bring many benefits to Kenya. It is expected to reduce the cost of transportation, making Kenya an attractive and competitive investment destination in the region. Hence, it is expected to accelerate industrialization through the availability of easier and cheaper transport and help turn Kenya’s Vision 2030 into reality. It is anticipated that it would also create employment opportunities as well as demand and markets for local construction materials during the construction and operation phases.\(^{396}\) The project affects eight counties - Mombasa, Kilifi, Kwale, Taveta, Makueni, Machakos, Kajiado, and Nairobi - the most.\(^{397}\)

However, the project may also bring some negative impact. In general, objections to the SGR Project were based on the following concerns. The first concern was the negative environmental impact. The SGR goes through the middle of Nairobi National Park for six kilometers, dividing the 12,000-hectare park in two. Conservationists protested the project, arguing that it would disrupt the park’s ecosystem, negatively impact wildlife migration, and increase cases of human-wildlife conflict.\(^{398}\) Environmentalists expressed concerns that the project would negatively affect the wildlife migration and conservation.\(^{399}\) The park plays a priceless role in preserving Nairobi’s biodiversity and cultural heritage. Therefore, there were concerns over whether the contractor carried out a proper ESIA prior to the project’s commencement.\(^{400}\) The second concern was the negative social impact brought by the project. There were some land ownership disputes between private owners and local Maasai communities along the SGR route.\(^{401}\) The project required the acquisition of public, community, and private lands, which would result in

---

\(^{396}\) Interview official of the Chinese embassy in Kenya and director of Institute of International Development Cooperation at the Chinese Academy of International Trade and Economic Cooperation.

\(^{397}\) Interview with counselor of the Economic and Commercial Councilor’s Office of the Chinese government in Kenya


\(^{399}\) Interview with staff of Kenya Coalition for Wildlife Conservation and Management during one demonstration before Chinese Embassy to Kenya in October, 2016

\(^{400}\) Interview with staff of Kenya Coalition for Wildlife Conservation and Management and project manager of WWF-Africa

\(^{401}\) Interview with liaison officer of Mombasa County
involuntary resettlements and land acquisitions of affected communities’ private and communal lands. Table 4.2 outlines the interested and affected parties of the project. These are those that were likely be affected by or had an interest in the proposed railway corridor.

Table 4.2: The Interested and Affected Parties of the Project

<table>
<thead>
<tr>
<th>Types of Parties Involved or Affected</th>
<th>Details of Subjects Involved or Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Operators</strong></td>
<td>Hotel owners, shop owners, service stations, freight terminal owners, truck owners among others</td>
</tr>
<tr>
<td><strong>Communities with an Interest in Land Affected by the Project</strong></td>
<td>Affected communities in areas such as Kima, Simba, Kiboko, Maungu, etc; Rural private and communal land in areas such as Kivati, Nagwata, Wangala, etc.</td>
</tr>
<tr>
<td><strong>Conservation NGOs</strong></td>
<td>Nature Kenya, WWF, Centre for Training and Integrated Research for ASAL Development etc.</td>
</tr>
</tbody>
</table>

Author’s Compilation

On September 19, 2016, the National Environment Tribunal issued a stop-work order following a petition by activist Okiya Omtatah and the Kenya Coalition for Wildlife Conservation and Management, who filed a petition against the National Environmental Management Authority (NEMA), the KWS, CRBC, the Kenya Railways Corporation, the attorney general, and the Ministries of Environment and Transport. The National Environment Tribunal stopped the

402 Interview with project coordinator of Centre for Training and Integrated Research for ASAL Development; interview with official from UN Environment
construction of a section of the SGR set to pass through Nairobi National Park until the assessment of the project’s environmental and social impact was completed. NEMA was accused of “failing to conduct a feasibility study for the project” and allowing the project to go on before an ESIA was done. As such, the tribunal demanded that “all activities relating to the appeal in question must be stopped until the appeal is heard and determined by the tribunal.”

This, alongside criticisms from local conservation NGOs and the media, shows that the environmental and social impact of the project raised heated debates in Kenya.

4.4 Key Actors in Addressing the Environmental and Social Concerns in the SGR Project

Stakeholder engagement is a critical process that helps companies understand key environmental and social impact and identify sustainability risks and opportunities. Besides CSR stakeholder theory, the sociological network analysis approach emphasizes that the interactions between social actors (e.g., individuals, organizations, or nations) shape their behavior. Social actors are interdependent and linked by social ties. Institutional theory in economic sociology suggests that an organization’s behavior is influenced by the economic, legal, and political environment in which it operates. Together, stakeholder theory, network analysis, and institutional theory provide an analytical framework to understand how a company may change its CSR practices because of institutional pressure and other factors.

Different stakeholder groups should be examined to get a comprehensive picture of the problem. In this section, this dissertation empirically examines the key actors in addressing the environmental and social concerns in the SGR project. This dissertation mainly focuses on the

---

407 Ibid.
role of the Chinese government, China Exim Bank and CRBC during the construction of the SGR, as they are the implementers of the state-centric approach. This dissertation also extends to the stakeholders in Kenya including the Kenyan government, local NGOs and media to understand how they interact with the Chinese actors. The stakeholder approach helps to show how the state-centric approach was implemented in advancing CRBC’s CSR in the SGR project.

4.4.1 The Kenyan Government

The host country government can be regarded as the most critical player that can significantly affect overseas companies’ environmental and social behavior through rule setting and regulatory powers.\(^{408}\) The environmental and social policies in host countries as well as the political will and capacity of the institutions that enforce and implement the policies are usually considered as the determining factors of foreign investments’ environmental and social impact.\(^{409}\) As shown in Appendix 6, the Kenyan government had a legal obligation to take the listed national environmental policies and the affected communities’ plans into consideration to assess the environmental and social impact of the SGR project. It also required CRBC to comply with Kenyan domestic regulations to ensure the sustainable operation of the SGR project. In addition, as the construction of the SGR took place before Kenya’s national elections, the politicization of the project determined the Kenyan government’s vital role in the process and its subsequent commitment to the sustainable operation of the project. The successful completion of the SGR project would add campaign capital for the incumbent election. Under electoral uncertainty, to better deal with contestation from the opposition party, the incumbent Kenyan politicians committed to the project and lobbied CRBC to ensure the project’s sustainability.\(^{410}\)

As mentioned above, land ownership has been a long-standing political grievance in Kenya, and the SGR project exacerbated the conflict and “brought issues around land ownership and

---


\(^{410}\) Interview with government official of Mombasa County
compensation to the forefront of political debate.\footnote{Wissenbach, Ucrbc and Wang, Yuan (2016), “Local Politics Meets Chinese Engineers: A Study of the Chinese-Built Standard Gauge Railway Project in Kenya” (China Africa Research Initiative Policy Brief, No. 16), online: <https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/58136e42b3db2ba8eafbcbb/1477663849649/kenya+v3.pdf>, accessed on December 10, 2016. See also, Nyassy, Daniel (2015), “Hands off Railway Project, Company Tells County Officials” (Daily Nation), online:<http://mobile.nation.co.ke/counties/Mombasa-Standard-Gauge-Railway-CRBC/1950480/2761446/-/format/xhtml/-/8y1o2bz/-/index.html>, assessed September 17, 2016.} Much of the land that the railway passes through had to be expropriated from private owners. Especially in Mombasa county, the land compensation disputes had posed significant obstacles to construction. The government official of Mombasa County claimed that the historical context should be considered during the valuation regarding resettlement and compensation.\footnote{Interview with government official of Mombasa county} One longstanding source of political land grievances stems from land ownership disputes between indigenous community members who live on the land without title deeds and migrants from other parts of Kenya who were issued title deeds by the government without considering the incumbent residents’ traditional forms of land ownership.\footnote{Ibid.} Given the longstanding conflicts over land ownership in Kenya, land compensation had become one of the biggest challenges for CRBC, even though it was not its responsibility in the SGR project.

Most of the land along the project is considered private land and community land, which, according to the 2010 Constitution of Kenya, is held in trust by the respective Country Governments. To guarantee fair land compensation and expropriation, public participation is a significant aspect to ensure positive social impact on local communities.\footnote{Interview with project manager of WWF-Africa} In the SGR project, the National Land Commission (NLC) was accountable for managing the valuation of as well as the compensation claims deriving from the acquisition and leasing of these lands. Land surveyors and appraisers had been assigned by NLC to sites to conduct land compensation evaluation and help facilitate the process that determined when CRBC could begin construction.\footnote{Ibid.} An estimated 10% share of the KES 380 billion from the Kenyan government was allocated toward resettlement and compensation.\footnote{Interview with government official of Mombasa County} Before the construction of the SGR, the Kenyan Railway Corporation appointed Limcom Africonsults to conduct the ESIA. According to the local
government officials, views from local residents, leaders, institutions, and development partners were collected through interviews, technical consultative forums, and public consultation meetings.\textsuperscript{417} According to the liaison officer, about 2,000 residents and business owners along SGR railway line were consulted during these public meetings.\textsuperscript{418} Local residents, chiefs of affected villages, administrative leaders, and relevant line ministries from the county governments along the proposed route were invited to attend.\textsuperscript{419} These extensive consultation efforts laid a helpful foundation for the construction of the SGR. During an official visit to the Mombasa County in December 2016, the Managing Director of Kenya Railway complained that dealing with land acquisition issues was very difficult. At the time of his public speech, approximately KES 90 billion had already been spent towards issues of land acquisition, double the initial budget allocation for land issues.\textsuperscript{420}

During the construction of the SGR, land compensation disputes arose. Due to the complexity of Kenya’s land ownership and historical grievances among tribes, the NLC’s land valuation process generated many disputes. For example, for some farmers or indigenous groups who wanted to claim compensation without the legal documents to prove land ownership would likely lose compensation in the name of public interest. In addition, tensions and grievances among tribes were barriers to construction. The villages outside the SGR route envied the affected communities who were able to obtain land compensation and other benefits from CRBC’s CSR programs, such as schools and jobs for the local community.\textsuperscript{421} When the Kenyan government faced difficulties in fully compensating affected landowners in time, CRBC had to be involved to help the Kenyan government resolve the land compensation issue due to the political pressure from the Chinese and Kenyan government.\textsuperscript{422} According to the liaison officer of Mombasa County, since CRBC did not want media attention on land compensation to cause unnecessary troubles, it usually assigned liaison officers to communicate with affected landowners and pay

\textsuperscript{417} Ibid.
\textsuperscript{418} Interviews with liaison officer of Mombasa County
\textsuperscript{419} Ibid.
\textsuperscript{420} Ibid.
\textsuperscript{421} Ibid.
\textsuperscript{422} Interview with project manager of the SGR project
the land compensation fees to ensure that the project could be finished before the deadline.423

4.4.2 The Chinese Government

Home country governments can provide financial and technical assistance to help host countries govern foreign investments and maximize economic, environmental, and social benefits.424 CRBC could not address the potential environmental and social impact of the project without the guidance and support of the governments and leaders of the two countries. During President Kenyatta’s visit to China in 2013, President Xi and President Kenyatta jointly witnessed the signing of the financing memorandum of understanding of the SGR project. In May 2014, Premier Li and President Kenyatta, together with leaders of other east African countries, attended the signing ceremony of the financing agreement for the SGR. Premier Li urged the CCCC to meticulously construct the SGR, provide the Kenyan counterparts with necessary and qualified equipment, and offer operation and management training to local employees. President Kenyatta and other Kenyan leaders all attached immense importance to the SGR. They conducted inspection visits to various sections of the SGR each quarter and held on-site meetings with the Chinese embassy, CRBC, Kenyan cabinet secretaries, governors, and heads of relevant Kenyan departments to guarantee the rapid implementation of the project.425

As discussed before, to better deal with the opposition’s contestations and win the 2017 Kenyan election, incumbent Kenyan politicians demanded CRBC to carry out the project in a sustainable manner.426 The political significance of the SGR for both Kenya and China and the political pressure from both governments played an important role in pushing CRBC to ensure the quality and sustainability of the project. As a Chinese SOE, the successful completion of the SGR sustainably would not only represent the CRBC’s CSR efforts but also demonstrate China’s

---

423 Interview with liaison officer of Mombasa County
425 Interview with project manager of WWF-Africa and WWF-China
426 Interview with government official of Mombasa County
railway construction capabilities and professionalism.\textsuperscript{427} Given the project’s political salience, the united and concerted efforts of the Chinese and Kenyan governments created favorable conditions for the construction of the SGR.

The Chinese embassy in Kenya played an important oversight role in the CRBC’s CSR performance in the SGR. According to an officer from the Chinese embassy in Kenya, the Chinese government issued a strict directive to the embassy to ensure that the SGR was constructed sustainably, out of recognition that the international community paid a significant amount of attention to the project. The central government instructed the Chinese embassy in Kenya to educate and train staff of CRBC and other SOEs to comply with local environmental laws and social regulations as well as international regulations and guidelines during construction.\textsuperscript{428} Such direct engagement with the Chinese embassy and the Economic and Commercial Counselor’s Office (ECCO) provided Chinese companies with informal governance oversight.\textsuperscript{429}

The Chinese embassy in Kenya and the ECCO made concerted efforts to establish effective communication channels with CRBC through regular visits and meetings. They required CRBC to report the progress of the project and other related issues to them. The Chinese embassy in Kenya also organized relevant trainings once every two months to help CRBC managers and other SOEs learn local laws and regulations, familiarize themselves with the local business environment, strengthen their awareness of legal compliance, and help address financial arrangements during overseas operations, including customs clearance, taxation, and investment risks. The embassy also invited professionals for on-site consultations.\textsuperscript{430} Chinese SOEs’ familiarity and compliance with policies, guidelines, and initiatives related to promoting sustainable foreign investment were also encouraged by the Chinese embassy and the ECCO.

I attended and observed three of these training sessions at the Chinese embassy in Kenya during my fieldwork. All of the three training sessions were organized for Chinese SOEs engaging in

\textsuperscript{427} Interview with official of Chinese embassy in Kenya
\textsuperscript{428} Ibid.
\textsuperscript{429} Ibid.
\textsuperscript{430} Ibid.
hydropower, railway, high-ways, and real estate construction in Kenya. Project managers of branch officers of a total of 21 Chinese SOEs attended the three compulsory training sessions. Both the Chinese ambassador and counselor of the ECCO also attended all the three training sessions. The trainings usually proceeded in this way: Firstly, the invited companies gave 20-minute presentations to report their construction progress over the past two months. In addition to reporting the construction progress, the companies also had the chance to express their concerns and reflect difficulties encountered during the constructions period. For example, they could seek advice on how to build effective communication with local people from the embassy. After the presentations, the embassy and the ECCO responded to questions before appointed legal and economic experts conducted training workshops on Kenyan policies and regulations regarding taxes, labor, and environmental protection. By sharing good practices and drawing lessons from presentations, the embassy and the ECCO encouraged Chinese SOEs in Kenya to learn from each other’s practices and draw lessons from negative cases. Managers of some invited Chinese companies claimed that through the compulsory trainings and group study sessions, they became more familiar with Kenya’s local laws and regulations and developed more of a sense of responsibility to complete the construction projects, given the social and environmental impact on the local community and people.431

The Chinese embassy also encouraged CRBC to hire liaison officers to build connections with local communities and pay attention to the local employment and labor warfare. According to the interview with an official from the Chinese embassy in Kenya, project managers of Chinese SOEs who violated Kenyan regulations and caused negative environmental and social impact would be warned by the Chinese embassy and incidents would be reported back to CCCC. In serious cases that caused huge financial losses or reputational damage for Chinese SOEs, the political careers of project managers or even senior managers of CCCC could be affected.432 Such political punishment could have a lifelong effect on these officials and they could even face further disciplinary actions (such as demotion, delayed promotions, or removal from current

431 Interviews with project managers of China Wu Yi Co., Ltd. (Kenya Branch), China Road and Bridge Corporation (Kenya), and Power China (Kenya)

432 Interview with official from Chinese embassy in Kenya.
position) or even criminal prosecution. Given that the managers of CRBC and China Exim Bank would not want to jeopardize their political career for their negligence of the laws, CRBC and China Exim Bank were reasonably motivated to ensure that the SGR project conformed to the established guidelines. According to an official from the Ministry of Environmental Protection in China, other regulatory systems of the Chinese government were also used to hold CRBC accountable. These include procedures for approval by Chinese ministries, certificates and guarantees from financial institutions, and due diligence inspections by project managers of China Exim Bank.

In addition to the efforts and political guidance of the Chinese embassy in Kenya and the ECCO, Chinese business associations led by the ECCO also influenced CRBC’s environmental and social behavior in Kenya. One such association is the Kenya China Economic and Trade Association (KCETA), a social organization comprising Chinese companies operating in Kenya. The association was founded in 2001, and its membership grew to 73 by the end of May 2017. According to statistics, its members are involved in project contracting, trade, real estate, logistics, technology services, and manufacturing. The mission of the KCETA is to help Chinese companies in Kenya resolve difficulties during operation and encourage members to arrange CSR programs to build closer ties with the community in order to protect their rights and promote business development. Specific efforts include advocating and organizing public welfare activities, helping members familiarize themselves with the local market, and building close community ties. The association also encourages its members to vigorously promote the localization of employees, conduct technical training and assistance activities, establish training centers in universities to help local people improve their work capacity, and organize donations to charity organizations such as the Red Cross and the Rhino Conservation Organization. The association also has the capacity to organize large-scale public welfare activities in Kenya.

---

433 Interview with project manager of WWF-China.
434 Interview with deputy director of Ministry of Environmental Protection of China
435 Interview with the vice secretary of the KCETA
436 Ibid.
437 Ibid.
The KCETA also released its 2017 Chinese Overseas Companies in Kenya Social Responsibility Report in both English and Chinese to report on the overall environmental and social behavior of Chinese companies in Kenya.\(^{439}\) The report was written with technical support from the ECCO. It is the first CSR report regarding Chinese companies in Kenya, showing the Chinese government’s increasing attention toward CSR performance of Chinese companies in Kenya. The KCETA and the ECCO in Kenya offered an opportunity for the private sector to comment on legislative and regulatory proposals and give feedback on the CSR report. Therefore, companies were able to provide constructive criticisms that help new CSR measures be practicable and reflective of business realities.\(^ {440}\) The report includes the CSR practices of several SOEs operating in Kenya, including CRBC’s CSR practices in the SGR project, to encourage other Chinese companies in Kenya to learn from them.\(^ {441}\)

### 4.4.3 China Exim Bank

Eighty-five percent of the funding for the SGR came from the China Exim Bank. Therefore, China Exim Bank could play an influential role in minimizing the environmental and social risks of the project. The consistent application of green financing standards would address host countries’ concerns, protect China’s image as a responsible country, increase the effectiveness of China’s soft power, and enhance its role an increasingly active global power.\(^ {442}\) In the Mombasa-Nairobi SGR, China Exim Bank was responsible for conducting ESIAs, project reviews, public consultations with communities affected by the project, and ex post ESIAs in its lending policy.

China Exim Bank is a government bank under the direct leadership of the state council. The operation of China Exim Bank is overseen by the Ministries of Finance and Commerce, the People’s Bank of China, and the CBRC. The bank has a dual purpose of financing the operations of Chinese companies abroad and promoting Chinese exports. China Exim Bank achieves these objectives by providing export credits to Chinese companies, loans to overseas construction and

\(^{439}\) Interview with vice secretary of the KCETA

\(^{440}\) *Ibid.*


investment projects, and concessional loans to foreign governments.\textsuperscript{443} China’s OBOR initiative has now brought China Exim Bank’s commercial and policy lending to the international stage. The bank extends 90\% of its export credits to state-owned overseas companies and large projects. In China Exim Bank’s 2007 Guidelines on Environmental and Social Impact Assessment of Loan Projects, the bank stipulates an ex ante ESIA requirement and further states that those projects that are harmful to the environment or do not gain approval from environmental administration will not be funded.\textsuperscript{444} China Exim Bank is required to conduct ex post ESIAs of overseas investment projects. Based on the findings of this ESIA, China Exim Bank should revise the measures taken before and during the project implementation for similar projects.\textsuperscript{445} China Exim Bank also needs to conduct public consultations and project reviews in the duration of the loan; accordingly, it should take immediate remedial or preventive measures to deal with environmental and social risks.\textsuperscript{446}

According to the interview with a general manager of China Exim Bank, the following performance standards were considered when extending loans for the SGR project: assessment and management of environmental and social risks and impact; labor and working conditions; resource efficiency and pollution prevention; community health, safety, and security; preparation of land acquisition and involuntary resettlement action plans; biodiversity conservation; assessments of impacted protected areas and mitigation measures; and the protection of indigenous peoples and cultural heritage.\textsuperscript{447} During the construction of the SGR, CRBC and Kenyan government were responsible for reporting to China Exim Bank regarding the social and environmental impact of the project. Upon completion of the project, the Kenyan government handed in the environmental acceptance documents.\textsuperscript{448} Based on the documents, China Exim Bank conducted post-evaluation on the environmental and social impact and monitored the post-

\textsuperscript{445} Ibid., Article 18.
\textsuperscript{446} Ibid., Article 12 (4) and Article 19.
\textsuperscript{447} Interview with project manager of China Exim Bank.
\textsuperscript{448} Interview with staff of Kenyan Wildlife Service.
loan management of the SGR.\textsuperscript{449}

Interview evidence suggests that China Exim Bank had some enforcement of its internal social and environmental rules, which played an important role in encouraging CRBC’s legal compliance behavior. According to a project manager of the SGR project, there were three staff members in China Exim Bank in charge of the assessment, management, and monitoring of the SGR project. All three personnel had at least five years of project approval and supervision experience in the Approval and Management Department of China Exim Bank. The project manager in charge of the SGR project visited the project sites in 2014 and in 2017 to conduct due diligence and post-evaluation reports regarding the project’s impact on the local community and people. During construction, CRBC’s project manager was obligated to report on the construction’s progress and emergencies to China Exim Bank through email and telephone conferences.\textsuperscript{450} For example, when the Kenya’s National Environmental Tribunal issued a stop-work order for the construction of a section of the SGR in 2016, China Exim Bank immediately learned the situation and urged CRBC to adopt adaptive measures to reduce potential negative fallout regarding the project.\textsuperscript{451}

However, China Exim Bank’s assessment report on the environmental and social impact of the SGR is not open to the public. As China Exim Bank has no legal obligation to disclose project evaluation information and there is no third-party monitoring nor grievance mechanism to allow affected community and people to file complaints during construction, the overall credibility of the sustainable lending process is in doubt. In addition, the project manager reflected that there was generally not enough staff involved in China Exim Bank’s lending processes.\textsuperscript{452} According to the manager, the three persons in charge of the SGR project were also responsible for reviewing and approving other infrastructure projects at the same time. The manager explained that with more projects awaiting approval under the OBOR Initiative, the workload of the thirty full-time staff members in the Approval and Management Department of China Exim Bank has

\textsuperscript{449} Interview with project manager of China Exim Bank
\textsuperscript{450} Interview with project manager of the SGR project
\textsuperscript{451} Interview with project manager of China Exim Bank
\textsuperscript{452} Ibid.
become very heavy.\footnote{Ibid.} Without adequate technical personnel involved in the lending process, the credibility of China Exim Bank as a monitoring body could be compromised.

4.4.4 The CRBC’s CSR Efforts

4.4.4.1 Internal Management System

The SGR project faced many challenges, such as tight deadlines before the Kenyan election; strict environmental requirements; and relationships with the government, owners, consultants, and local NGOs and communities that the project affected.\footnote{Interview with counselor of the Economic and Commercial Councilor’s Office of the Chinese government in Kenya} To ensure the sustainable environmental and social operations of the project, CRBC established a three-level (head office, branch offices, and site offices) responsibility management system.\footnote{Interview with project manager of the SGR project} According to a project manager of the SGR project, the design of the organizational system aimed to ensure social and environmental commitment to the local government and community.\footnote{Ibid.} The head office was responsible for safety, and the quality department was responsible for the overall management of energy conservation and environmental performance. The branch offices were responsible for assisting the head office in the supervision and guidance of environmental protection management work within their jurisdiction. The site offices oversaw environmental and social protection at various sections by tracking and analyzing the environmental situation, formulating specific environmental policies and measures, and implementing related schemes of environmental protection.\footnote{Ibid.} Under the project, there were ten departments, one administrative office, four branch offices, eleven site offices, two track-laying bases, and one hundred and eighty construction teams. The head office’s instructions cascaded through the branch and site offices to the construction sites.\footnote{Ibid.}

Throughout the project, CRBC’s quality management included regular or irregular inspections
and special inspections of material procurement, testing, and quality control at each section. Special sites were built to monitor the mixing stations, and each section submitted pictures of roadbed transition sections to the head office each day. The head office inspected the construction quality of each section twice a month; notified sites of problems and required rectification within a limited period (usually within one month), punished sections with serious quality, environmental, and social problems.\textsuperscript{459} Punishments included oral warnings in regular meetings organized by project managers, written warnings posted in corporate internal newsletters, and reduced payments for the head manager and engineer responsible for the section construction work.\textsuperscript{460} According to the project manager of the SGR project, direct administrative monitoring from the head office motivated each section to ensure the sustainable construction of the project.\textsuperscript{461}

CRBC also tried to address community concerns by hiring liaison officers to build close connections with the local community. Hiring local liaison officers, as in the CRBC offices in Mombasa and Kajiado County, could be an effective way to improve communication between Chinese companies and local communities. Liaison officers who have roots in the local community served as the bridge between the company and the community and conveyed residents’ needs to the company. According to the SGR CSR report released by CRBC, CRBC believed the three-level management system with the appointment of liaison officers was effective to promote the sustainable construction of the SGR project.\textsuperscript{462}

\textbf{4.4.4.2 Environmental Protection Efforts}

In terms of the environmental protection performance, CRBC sought to comply with the environmental laws and regulations of Kenya. The head office of CRBC formulated and issued a series of environmental management rules including the Administrative Measures for Environmental Protection, the Administrative Measures for Soil and Water Conservation, and the

\textsuperscript{459} Interview with government officials of Mombasa and Kajiado
\textsuperscript{460} Interview with project manager of the SGR project
\textsuperscript{461} Ibid.
\textsuperscript{462} Interview with public relations officer of CRBC. See also, China Road and Bridge Corporation Social Responsibility Report 2015 on Mombasa-Nairobi SGR Report. The report is China’s first overseas project CSR report.
Administrative Measures for Environmental Impact Assessment.\textsuperscript{463} According to the liaison officers, CRBC carried out environmental inspections of all sections once a month to supervise the implementation of environmental protection measures. This enabled them to rectify any irrational behaviors in a timely manner, and standardized environmental management practices throughout the project.\textsuperscript{464} CRBC also engaged with professional ESIA consulting companies and appointed a professional ESIA engineer to each site office from commencement to completion to provide a professional guarantee of standard environment management.\textsuperscript{465} China-based Third Railway Survey and Design Institute Group Corporation (TSDI), Kenya-based APEC Consortium, and Edon Consultants International Limited were chosen as the professional ESIA consultants.\textsuperscript{466} The consulting consortium monitored the operation of the project, aiming to ensure the project was in compliance with local laws and regulations.

Before the commencement of the SGR project, CRBC was required to undertake an ESIA study guided by the 2003 EMCA Regulations. The assessment of the SGR included the planning and design, construction, operation, and decommissioning phases.\textsuperscript{467} The aspects of the SGR project identified for monitoring included vegetation, water quality, air quality, solid waste generation, occupational health and safety risks, wildlife/livestock/human accidents, soil erosion, resettlement, and livelihood and environmental risks.\textsuperscript{468} CRBC also put effort into various environmental protection activities. For water pollution control and solid waste pollution control, for example, CRBC set up cleaning devices and vehicles at designated points; simple sewage treatment facilities in the camps for the centralized collection and disposal of domestic sewage; and sedimentation tanks on work sites generating high-turbidity waste water or other measures to treat the wastewater. The government official in Mombasa County reflected that, with regard to the solid waste pollution control, CRBC properly and promptly processed and removed the waste unsuitable for recycle.\textsuperscript{469} CRBC also set up temporary stack points in camps and entrusted local

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{463} Interview with project officer of the SGR project.
\item \textsuperscript{464} Interview with liaison officers of Mombasa County.
\item \textsuperscript{465} Interview with general engineer of the SGR project.
\item \textsuperscript{466} Interview with project manager of the SGR project.
\item \textsuperscript{467} China Road and Bridge Corporation Social Responsibility Report 2015 on Mombasa-Nairobi SGR Report.
\item \textsuperscript{468} Interview the project manager of the SGR project.
\item \textsuperscript{469} Interview with government official of Mombasa County.
\end{itemize}
\end{footnotesize}
sanitation departments to dispose of municipal waste in a centralized way.\textsuperscript{470}

To reduce negative impact to wildlife, CRBC analyzed more than ten possible routes and chose a route that could bypass Nairobi Wildlife Park and meet the requirements of the KWS.\textsuperscript{471} According the KWS, allowing 11 kilometers of track to pass through Nairobi National Park is a pragmatic alternative with the economic and development needs of the Kenyan people in mind.\textsuperscript{472} In consideration of the migratory patterns and paths of wildlife in the wildlife reserves along the railway as well as the habitats of elephants, giraffes, and other animals, CRBC installed a number of wildlife channels and facilities to help animals cross the rail safely. These included fences on both sides of the railway to prevent roaming animals from colliding with the train, extending the approach of the crossing bridge and increasing its height to facilitate the passing of animals, and setting up lower-profile culverts to meet the drinking needs of small animals.\textsuperscript{473} CRBC also set up electronic systems to detect and deter animals. Stationary signal-warning systems are used to scare wildlife away from fenced areas and bridges.\textsuperscript{474} According to the Kenyan Wildlife Services, these methods effectively reduced the adverse impact of the SGR on wildlife migration and human-wildlife conflicts.\textsuperscript{475}

4.4.4.3 Social Interests Protection

As the SGR encompasses a land area that extends over 472 kilometers, it is imperative for CRBC to adopt effective measures to minimize negative social impact to local communities that occupy or use the land it covers. According to the project manager of the SGR project, before the construction of the project, field visits had been carried out by CRBC to inspect the site characteristics and the environmental status of the surrounding areas.\textsuperscript{476}

\textsuperscript{470} Interview with government official of Mombasa County
\textsuperscript{471} Interview with Chairman of The Kenyan Wildlife Service and officer of Chinese embassy in Kenya
\textsuperscript{472} Interview with staff of The Kenyan Wildlife Service
\textsuperscript{473} Interview with Chinese engineer of the SGR project
\textsuperscript{474} Ibid.
\textsuperscript{475} Interview with staff of The Kenyan Wildlife Service
\textsuperscript{476} Interview with project manager of the SGR project
As the railway passes through many tribal lands, communication with local communities and respect for local customs and traditions during the construction of the project, including the rights and interests of tribal people, were important to ensure the smooth development of the SGR project. CRBC communicated with the local people affected by the project through group consultation, public announcements, notices and explanatory letters. It also set up billboards around the site to smooth communication and resolve dissatisfactions. Nonetheless, according to the liaison officer, CRCB encountered some difficulties in communicating with a particular group, the Maasai tribe. The Maasai tribe living along the SGR route has historically been a marginalized community. The tribe had long-standing conflicts and struggles with other ethnic groups over resources. During the construction, the affected Maasai tribe was unhappy that CRBC also provided jobs to other ethnic groups and communities. They believed that, since the railway was being built on Maasai land, only the Maasai tribe was entitled to the job opportunities. In addition, disputes over wages, employment benefits, land compensation, environmental impact, and supply contracts all caused disagreement within and between the local communities and CRBC. The pre-existing tensions between ethnic and socioeconomic groups were exacerbated by the SGR project. In order to get construction underway as soon as possible due to political pressure from the Chinese and Kenyan governments, CRBC became involved the land compensation issue, as “the company didn’t want the thing to be out of control”. When communication efforts did not work as expected, CRBC had to help the Kenyan government to resolve land compensation issues.

In the SGR, liaison officers were “assigned to every section by the SGR and CRBC as part of

477 Interview with liaison officers of Mombasa County
478 Interview with UN Environment officer
479 Interview with liaison officer in Mombasa County
480 Interview with program manager of China House and head of China Daily, African Station
482 Interview with government official of Mombasa County
483 Interview with project manager of the SGR project
CRBC’s CSR strategy." The liaison officers were responsible for connecting and communicating with external stakeholders to ensure effective communication with local people and communities in order to address their concerns. The liaison officers collected complaints from the local community and send them to CRBC. The liaison officers also had the responsibility of advising CRBC managers on the ways to deal with the ethnic diversity of the local communities to ensure diverse and equitable representation. In Mombasa and Kajiado County, I met with two liaison officers after being introduced by the county government. One officer had experience with local NGOs and was familiar with the local community. The other officer served Mombasa County as a civil servant for many years and became a counselor in the local government before taking the position as a liaison officer. Born and raised in the Counties, both believed that they were trusted by the local community. Hiring recognized liaison officers seemed to be an effective strategy for gaining greater acceptance from the local community and reducing friction over land, employment, and communication issues between CRBC and local residents and workers. The two liaison officers collected appeals and complaints from the local community to discuss them with CRBC. In response to some of the feedback, CRBC helped renovate schools, water infrastructure, health centers, churches, and disease protection trainings. Furthermore, following the directions and arrangements set by the head office of CRBC, section offices investigated the expectations and demands of the local communities with the support of the county governments. In addition, according to the manager, CRBC held quarterly meetings with top officials of the Government of Kenya. To maintain communication with concerned landowners and work toward solving problems regarding land acquisition and demolition, CRBC established regular communication channels with the National Land


485 Ibid.

486 Interview with liaison officers of Mombasa and Kajiado

487 Interview with public relations Officer of the SGR project. “Since the project commenced, CRBC have organized more than 100 social activates, from which over 10,000 Kenyan people have benefited. Activities include built water reservoir along the railway line to ensure water safety of local residents; built primary campus and donated stationery and sports goods, organized AIDs campaigns including prevention training, prophylactic distribution; made emergency plans for major epidemics, conducted training on epidemic prevention and treatment, etc.”

488 Interview with project manager of the SGR project
Commission, the Kenya Railways, the KWS, and other agencies.\textsuperscript{489}

In addition to efforts to work with external organizations and institutions in the host country, employee localization was a critical concern in the SGR project. As of the end of 2015, 21,858 employees, including 2000 Chinese management and technical personnel, and 19,858 local employees (4690 technical workers, 907 management personnel and 14,261 ordinary workers) were officially registered in the project.\textsuperscript{490} By the end of June 2018, the SGR project had provided jobs for almost 50,000 people, trained over 5,000 technical workers and operation managers, and supported over 100 Kenyan students in earning bachelor degrees in railway construction in China.\textsuperscript{491} CRBC also cooperated with leading domestic universities and the Railway Training Institute (RTI) to train railway operation personnel in preparation for railway operation. CRBC reached an agreement with a leading Chinese railway training institute to send outstanding employees to China for training.\textsuperscript{492}

In addition, local government officials were concerned about whether the SGR would truly benefit local industries, provide business opportunities for local contractors, and help promote local employment.\textsuperscript{493} During the construction of the SGR project, county government officials learned the local subcontractor information through regular meetings with SGR project managers and local liaison officers.\textsuperscript{494} According to a local government officer, the Chinese government promised labor localization to create a “win-win” outcome throughout the construction process.\textsuperscript{495} Under the Chinese government’s instructions, CRBC cooperated with more than 200

\textsuperscript{489} Ibid. Interview with liaison officer of Mombasa County

\textsuperscript{490} China Road and Bridge Corporation Social Responsibility Report 2015 on Mombasa-Nairobi SGR Report


\textsuperscript{492} Interview with public relations officer of the SGR project. See more, China Road and Bridge Corporation Social Responsibility Report 2015 on Mombasa-Nairobi SGR Report. From July to December 2015, CRBC sent 13 outstanding local employees in four groups to the seminar on Railway Project Management and Construction for Developing Countries sponsored by the Ministry of Commerce of PRC and organized by Southwest Jiaotong University. Through class lectures and on-site teaching, trainees got a clearer picture of the leading technologies and advanced development of Chinese railways, especially the high-speed railways, comprehensively assimilated the knowledge and skills of railway project management and enhanced their ability to solve Kenya’s problems concerned. After the training, each of the designated local employees finished all courses and obtained a training certification issued by Southwest Jiaotong University.

\textsuperscript{493} Interview with government officials of Mombasa and Kajiado County

\textsuperscript{494} Interview with government official of Mombasa County

\textsuperscript{495} Ibid.
local subcontractors. It communicated with local subcontractors, conducted efficient and timely coordination and investigations, and dealt with key issues that could affect the quality, safety, and progress of the project. These activities enabled better communication with local communities and turn economic investments into mutually beneficial outcomes. CRBC adopted social and environmental criteria for subcontractors. Based on its experience in railway construction and management in Kenya, CRBC formulated internal quality management measures, quality assurance plans, and administrative measures to investigate whether subcontractors complied with its social and environmental standards. According to the CRBC’s Administrative Measures for Investigation of Environmental-related Activities, CRBC could stop contracting with subcontractors who violate the internal regulations and Kenyan laws, and section managers responsible for monitoring the construction would be warned and fined in accordance with the severity of the subcontractors’ violation. These internal rules provided a general framework for CRBC to deal with subcontractor activities. However, these internal measures were not open to the public. The actual implementation depended on the discretion of the SGR project manager. According to the liaison officer in Mombasa, there was strict screening of subcontractors in the bidding process and the chances of subcontractor violation against either CRBC’s internal rules or Kenyan laws should be pretty low.

4.4.5 NGOs and Media in Kenya

While the Chinese government may exert tight control over the domestic civil society, its administrative influence over overseas civil society is very limited. This is reflected in the SGR project. In the empirical research, I interviewed six NGOs both in Kenya and China, including the WWF-Africa, WWF-China, Kenya Coalition for Wildlife Conservation and Management, Centre for Training and Integrated Research for ASAL Development, China House, and the China-Africa Excellency Foundation. Five of the above NGOs are based in Kenya. All these NGOs have at least one researcher or staff member who conducts research on the SGR project.

---

496 Interview with project manager of the SGR project
497 Interview with government official of Mombasa County
498 Ibid.
499 Interview with project manager of the SGR project
500 Interview with liaison officer and government official of Mombasa County
Apart from the China-Africa Excellency Foundation, which only conducts research on the macro-economic impact of the SGR on local people and community, all the other interviewed NGOs pay special attention to the environmental and social impact brought on by the SGR. According to the interviews, not only Kenyan NGOs but also Chinese NGOs in Kenya (China House) did not meaningfully engage in dialogues with the Chinese government, the China Exim Bank, or CRBC throughout the construction process.

Since its commencement, the SGR project received great attention from local and international media. However, the CRBC’s attitude toward local NGOs and media was “keeping a distance from them.” The project manager of the SGR project admitted that that “we seldomly get in touch with local NGOs and media as some of them interpret some issues without deep understanding the reasons lying behind.” A responsible media, to the project manager’s understanding, should “assume the responsibility to report more positive stories to better facilitate the construction of the SGR project.”501 The public relations officer of the SGR project believed that the Kenyan media always focused on eye-catching stories to attract their audience and sometimes they failed to carry the social responsibility of independent social media.502 The language barrier between CRBC, local NGOs, and the media made it more difficult to achieve effective communication. Even though many staff members at the management level of CRBC found no problem in daily communication with local people, it was still difficult for CRBC to deal with the questions of local NGOs and the media in the public debate.503 Due to the above reasons, according to the program officer of China House, CRBC tended to contact local media only when it had positive stories to spread out.504 For example, CRBC “invited local media to participate in project exhibitions and CSR report release events, but they seldom participated.”505

Due to the lack of communication with local NGOs and media – even though the liaison officers were hired to help communicate with the local community – CRBC believed that its voice was not heard by local communities. One concrete example is the misunderstanding regarding the

501 Interview with project manager of the SGR project
502 Interview with public relations officer of the SGR project.
503 Ibid.
504 Interview with program officer of China House
505 Ibid.
land compensation issue. Although the responsibility of land compensation for the local community did not belong to CRBC, “local villagers believed that the CRBC was conspiring with the government to destroy their land and property by building railways.” The CRBC often believed that it was wrongly accused by such complaints. Whenever it received such complaints from local NGOs and media, the CRBC always preferred to communicate with local governors to express any unspoken concerns and raise suspicions about the true intentions of local NGOs and media. Without an effective dialogue with the CRBC, some NGO staff members became relatively critical, believing that “if the Chinese contractor doesn’t fully communicate with them, it means they want to hide something.” The communication breakdown further exacerbated the misunderstanding between CRBC and local NGOs and media.

4.5 Evaluation

4.5.1 The State-Centric Approach in Advancing CRBC’s CSR

The SGR case shows the role of the state-centric approach in regulating CRBC’s environmental and social behavior in the SGR project. The CRBC’s CSR advancement, which benefits from the direct governing and monitoring power from the Chinese government and China Exim Bank, is an example of implementation of the state-centric CSR approach overseas. Figure 4.4 summarizes how the state-centric approach plays out in advancing CRBC’s CSR.

---

506 Interview with project manager of WWF-Africa
507 Ibid.
508 Interview with liaison officer in Mombasa county
509 Interview with program officer of China House
510 Interview with staff of Kenya Coalition for Wildlife Conservation and Management
511 Interview with program officer of China House
As discussed in previous chapters, considering that the Chinese SOEs are linked to the state through institutionalized channels and political practices, their performance and behavior are closely intertwined with the political interests of the Chinese government and the commercial interests of Chinese national and policy banks. Due to the SGR’s political importance to both the Chinese and Kenyan governments, the Chinese government attached significant importance to the sustainable construction of the SGR project. In the SGR project, the Chinese embassy and the
ECCO in Kenya facilitated CRBC’s practice by providing technical assistance and facilitating trainings for project managers, encouraging CRBC to set up effective internal management, and hiring liaison officers to build closer connections with affected local communities to better address potential environmental and social challenges and risks. In addition, the Chinese embassy and the ECCO in Kenya also raised the CRBC’s CSR awareness in the SGR project through high profile political visits to provide favorable political conditions in advocating CSR goals. Combined with their evolving efforts to integrate environmental and social protection into foreign investment regulations and green finance, the Chinese government helped increase the CRBC’s tendency to construct the railway in a sustainable manner. Furthermore, the Chinese embassy and the ECCO in Kenya also propelled the CRBC’s CSR practices in the SGR project by requiring the CRBC to report to the embassy on the progress of the project regularly, to release mandatory CSR report on the SGR project, and to employ adequate local labor to realize employment localization. Lastly, the ECCO also partnered with the KCTA to release the 2017 Chinese Overseas Companies in Kenya Social Responsibility Report to further advocate for CSR in the CRBC and other Chinese SOEs in Kenya.

In addition, as the main financial provider for the SGR, China Exim Bank monitored and reviewed the project throughout the construction process. As a stated-owned policy bank under the direct leadership of the state council, China Exim Bank was encouraged to comply with the CSR standards established by the Chinese government. Beyond the basic requirement to comply with Kenyan domestic law regarding environmental and social protection, China Exim Bank mainly under the political pressure to maintain the Chinese government’s image overseas required CRBC to meet requisite social and environmental standards. The governance and monitoring from the Chinese government and China Exim Bank pressed CRBC to acknowledge and practice sustainable construction concepts.

In general, the Chinese government contributed to the improvement of CRBC’s CSR performance in the SGR project in a number of ways. First, the Chinese “Going Out” policy framework provides a regulatory framework for CRBC’s operations in Kenya. As demonstrated in Chapter 2, the policy framework, which includes policies and regulations on China’s sustainable investment overseas, helps promote Chinese companies’ CSR development and financial institutions’ practice of green finance. Second, the Chinese government established a
strong and inter-locking institutional network to regulate and support CRBC’s operation in Kenya. Together with the financial loans and support from the state-owned China Exim Bank, the political and financial supervision from the Chinese government further facilitated, endorsed and mandated CRBC’s responsible behavior in the SGR project. Third, significant political willingness by the Chinese government to complete the SGR successfully also enhanced the effectiveness of the state-centric approach in advancing CRBC’s CSR activities. Such diplomacy, reflected in extensive high-level political visits to Kenya with loans and technical assistance promises from the Chinese government, promoted a favorable environment for the construction of the SGR project.

4.5.2 Limitations of the State-Centric Approach in the SGR Project

The case study has methodological limitations and substantive implication limitations. As to the methodological limitations, it should be noted that the SGR case presents the environmental and social behavior of a single Chinese SOE engaging in infrastructure construction in Kenya rather than a comprehensive examination of Chinese companies’ behavior as a whole. As a result, there is an important caution on the generalization of the lessons learned from the SGR case. African countries are quite heterogeneous in their institutional qualities. It is uncertain whether the findings here in Kenya are equally applicable to other Chinese infrastructure projects in other African countries. Moreover, the company in the case study is a SOE. There are various types of Chinese companies operating in Kenya - from SOEs to fully private companies. The state-centric approach of CSR may not be equally effective to influence privately-owned Chinese companies’ CSR, given the diverse political and business cultures of different types of Chinese companies.

In addition, the interview sampling is imperfect. Although it covers a wide spectrum of population and occupations, as can be seen from the interview list, a small number of interviewees in different fields cannot fully represent the full population of Chinese overseas companies and affected stakeholders. Besides the sample issues, information credibility is hard to verify, particularly for information from the Chinese government and the agents under its control. The Chinese government and its affiliated institutions including Chinese SOEs and state-controlled banks may have incentives to present a positive image to the outside world, especially in the face of surrounding criticisms.
Leaving the methodological limitations aside, the SGR case confirms some theoretical limitations of the state-centric approach as discussed in Chapter 2. In the SGR project, CRBC preferred to deal with the local governments and stay away from local NGOs and media in Kenya. This tendency was mainly rooted in its limited experience with civil society engagement back in its home country, i.e. China. As a result, local NGOs and media held more suspicion of CRBC and did not engage in any meaningful dialogues with CRBC in the construction process. As discussed in Chapter 2, an important weakness of the state-centric approach is the lack of input from civil society, which is an important additional source of monitoring over corporate behavior and shaping corporate image. This weakness is evident in the SGR case. China’s state-centric approach developed in isolation from local NGOs and media does not help its CSR strategies responsive to local needs. Local NGOs and media are an important driving force of CSR. They can be partners with Chinese companies in designing, implementing, and monitoring CSR programs. As NGOs are independent intermediaries, they can act as a bridge between companies, communities, and the government to help them discuss viable solutions when conflicts arise. Moreover, China’s state-centric approach without substantive engagement with local NGOs and media does not help China gain good international reputation that it desires. As seen in the SGR case, CRBC often complained about unfair treatment by local NGOs and thus avoided its contact with them. Insufficient communication breeds distrust and misunderstanding. Meaningful and interactive engagement rather than defensive avoidance is a better way to gain trust and reputations with the international community. To correct the weakness of the state-centric approach, it is important to encourage the Chinese government and its affiliated institutions to get more involved with civil societies.

Furthermore, as mentioned in Chapter 2, the effectiveness of the state-centric approach depends on the political commitment of the government. The SGR project had a high political value for both the Chinese government and the Kenyan government. This political value created a favorable environment to press CRBC to engage in CSR practices. This political value is an important feature of the state-centric approach as the traditional market-based CSR approach mainly sees business value. The SGR case suggests that the state-centric approach may be weaker when projects are not politically important.
Finally, as discussed in Chapter 2, the Chinese government and its affiliated institutes have published numerous rules on promoting CSR. However, due to the vague and broad nature of the guidelines, the implementation of CSR initiatives and information disclosure of CSR policies and green finance are mainly rule-deep. There is not enough disclosure at the implementation level. This is also evident in the SGR case. China Exim Bank did not disclose its assessment report on the environmental and social impact of the SGR project. Neither the Chinese government made enough disclosure about the implementation of CSR measures in the SGR project. Poor transparency is a salient weakness of China’s state-centric approach. It undermines the credibility of the state-centric approach in advancing Chinese companies’ CSR overseas.

4.6 Chapter Summary

China’s infrastructure investment in Kenya has increased dramatically in recent years. Given the particular economic, environmental, and social conditions in Kenya, the chapter specifically uses the SGR project in Kenya as a case study to illuminate the strengths and limitations of the state-centric approach. The empirical case study demonstrates the usefulness of the state-centric approach through mandating, facilitating, endorsing, and partnering to improve CRBC’s CSR behavior. Meanwhile, this case study shows important limitations of the state-centric approach, including the lack of engagement with local NGOs and media, the dependence on political stakes at issue, and the poor transparency at the implementation level.
Chapter 5: Policy Recommendations to Promote China’s Sustainable Investment

Chapter 2 and the SGR case have demonstrated that state-centric CSR has the potential of influencing Chinese overseas companies’ environmental and social behavior. The Chinese government has attempted to endorse, facilitate, and mandate CSR to promote China’s sustainable overseas investment. However, the current state-centric approach has many weaknesses and limitations. This chapter, therefore, offers policy recommendations to enhance the state-centric approach’s effectiveness in regulating Chinese foreign investment. The recommendations address the problems reflected in the SGR case study, as well as the limitations of the general CSR policies analyzed in Chapter 2. The policy recommendations are as follows: enhancing the effectiveness of broad and vague guidelines, developing safeguard framework and assessment capacity, improving information disclosure, strengthening monitoring mechanisms, and building effective communication channels with stakeholders.

5.1 Improve the Effectiveness of Broad and Vague Guidelines

As discussed in Chapter 2, the Chinese government has developed a series of laws and guidelines to regulate Chinese corporate activities overseas. The rules are often very broad and vague without implementation details. When the guidelines are broad, it is difficult for companies to know how to implement them. It is important to consider how to turn the broadly stated principles into practical measures.

First, on the corporate side, a corporate template sensitive to local needs is very helpful. Companies should convert the broad policy guidelines into detailed internal operation plans. It helps enhance the implementation of CSR policies during daily operations of Chinese companies overseas. In the case of the SGR, core elements of Chinese policies are already incorporated into CRBC’s internal procedures to influence CRBC’s daily operations in Kenya. CRBC made efforts to add details to the government’s broad policies. For instance, CRBC formulated internal quality management measures, quality assurance plans, and administrative measures to investigate and manage environmental and social activities and to urge local subcontractors to comply with CRBC’s internal environmental requirements. CRBC’s experience in converting the Chinese government’s related guidelines and initiatives into the CRBC’s internal policies and
measures could be shared with other Chinese infrastructure companies to more effectively implement Chinese guidelines in host countries in Africa. The information sharing could be facilitated by the information platform created by the Chinese embassy or local industrial associations. With CRBC’s experience as a template, other Chinese companies operating in Kenya may find it easier to turn the broad policies into practice sensitive to local demands.

Second, on the governmental side, the Chinese government’s agencies in host countries should make country-specific guidelines. Different host countries may pose different challenges for foreign investors. As an interviewee reported, one of the difficulties to implement the existing guidelines is that the guidelines are usually very general and vague without conducting particular conditions of host countries.\(^{512}\) The country-specific guidelines help Chinese companies address investment risks specific to the host country. Chinese embassies in host countries may employ their local knowledge to promulgate country-specific guidelines. For example, in Kenya, land disputes were noted as a key business risk for Chinese companies. Chinese general policies and guidelines have not given much attention to this issue, despite the fact that it is a common problem faced by Chinese companies in Kenya and other African countries with complex land-tenure regimes. Under China’s state-centric approach, specialized guidance on this topic may be provided in Chinese policy documents and through training and information-sharing platforms offered by Chinese embassies.

Furthermore, Chinese government agencies’ political oversight over Chinese companies’ operations in host countries is important to monitor the implementation of the guidelines. Even if the head offices of Chinese companies adopt these guidelines and principles, there is often a lack of supervision and transparency at the project implementation level in host countries. The political oversight may include administrative oversight, such as regular training and reporting mechanism compulsorily required by Chinese embassies and government affiliated economic and trade agencies in host counties. These government agencies have direct administrative control over Chinese companies operating overseas, especially Chinese SOEs; thus, they can better monitor, regulate and facilitate Chinese companies’ CSR policy implementation in host countries. In the SGR project, the development of the CRBC’s internal management policies also

\(^{512}\) Interview with project coordinator of Centre for Training and Integrated Research for ASAL Development
benefits from the informal governance oversight and guidance from the Chinese embassy and the ECCO in the host country. The compulsory training and reporting mechanism, combined with the close guidance and supervision from the Chinese embassy and local ECCO office, ensures an effective monitoring role for Chinese SOEs operating in Kenya. The Chinese government’s agencies in host countries should play a role in ensuring that Chinese companies comply with country-specific guidelines.

Third, local industrial associations in host countries may release CSR reports and guidelines sensitive to local business needs and open to input by local companies. Several SOEs in Kenya found the CSR report released by the KCETA useful, as it described localized experiences that could be shared and applied in Kenya. Industrial associations in host counties, such as the KCETA, are familiar with practical issues arising from business practices and in a good position to issue practical guidelines sensitive to local needs. The KCETA and the ECCO in Kenya offered an opportunity for the Chinese companies in Kenya to provide feedback on the CSR report, which further increased the usefulness of the report for Chinese companies. The KCETA’s good practice of engagement with CSR advancement in Kenya could be continued by engaging with more companies in the future to promote Chinese companies’ sustainable investment practice in Kenya and beyond. Such kind of partnership is also helpful to enhance the Chinese government’s dialogues with other stakeholders and partnerships on CSR issues.

5.2 Enhance Capacity Building of Chinese Financial Institutions

5.2.1 Improve the Environmental and Social Safeguard Framework

An overview of environmental and social policies of Chinese financial institutions, as discussed in Chapter 2, shows that Chinese financial institutions are still in the initial stage of integrating environmental and social considerations into their lending policies. Major Chinese state-controlled financial institutions, such as CDB, China Exim Bank and People’s Bank of China, do not have comprehensive and well-established environmental and social protection frameworks. In addition, their environmental and social governance instruments do not contain comprehensive environmental and social assessment criteria. They also do not come with adequate information disclosure mechanisms or grievance mechanisms to ensure that affected communities have access to channels to express their concerns and complaints.
Chinese financial institutions could adapt and learn from the environment and social protection frameworks of multinational financial institutions. Over the decades, multinational financial institutions have developed detailed environmental and social risk management rules for project financing as well as supervision mechanisms, such as the grievance mechanism and third-party auditors. Global sustainable investment guidelines, such as the Equator Principles, the UN Global Compact, and GRI also provide a reference for Chinese financial institutions to develop internal, project-based environmental and social risk management systems.\footnote{513} Specifically, the World Bank has a complete operational policy for the projects it supports, which is intended to ensure the economic, financial, social, and environmental viability of its projects and activities. The World Bank Group Environmental, Health, and Safety Guidelines are “technical reference documents with general and industry-specific examples of good international industry practice.”\footnote{514} The World Bank’s guidelines include policies designed to prevent unintended negative impacts on third parties and the environment. It deals with natural habitats, corruption, cultural property, involuntary migration, ethnic minorities, dam safety, projects in international waterways, and projects in disputed areas in its four environmental social security requirements.\footnote{515} In terms of combating climate change and guiding sustainable investment, the World Bank Group has launched a climate change action plan to further integrate climate change elements into their lending projects.\footnote{516} As a member of the World Bank Group, the IFC developed its own sustainability framework, which has become an integral part of its

\footnote{513}{The three global initiatives set out standard guidance and requirements for incorporating environmental and social-related covenants into loan documentation and for monitoring the environmental and social performance of project finance transactions throughout the life of the loan.}


approach to risk management.\textsuperscript{517} The sustainability framework comprises the “IFC’s Policy and Performance Standards on Environmental and Social Sustainability” and the “IFC’s Access to Information Policy.” The performance standards cover the “assessment and management of environmental and social risks and impact,” “labor and working conditions,” “resource efficiency and pollution control”; “community health, safety and security,” “land acquisition and involuntary migration”; “biodiversity conservation,” and the “sustainable management of biological resources, indigenous peoples, and cultural heritage.”\textsuperscript{518} The environmental and social management of IFC-financed projects is required to include policies, identifications of risks and impacts, management plans, organizational capabilities and qualifications, early warning and response measures, stakeholder participation, monitoring, and reviews.\textsuperscript{519} The ADB has also developed detailed environmental and social policy framework with information disclosure, complaint, and accountability mechanisms.\textsuperscript{520} With regard to environmental and social risk management, the ADB details its involuntary migration policy, aboriginal policy, and environmental protection policy. The ADB divides projects into four categories, depending on the type, location, size, and impact they may have on the environment, setting different policies for each category.\textsuperscript{521} The ADB also publicizes the social environmental impact and assessment documents of all projects or activities they fund. Both the IFC and the ADB have provided mechanisms to enable people adversely affected by financed projects can file complaints to the financial institutions.\textsuperscript{522}


\textsuperscript{521} Ibid.

By learning from the environmental and social risk management policies of these above-mentioned multinational financial institutions, Chinese financial institutions may develop and improve their environmental and social safeguard frameworks throughout their lending process to address the potential environmental and social risks of the projects they finance. These frameworks should account for a comprehensive range of potential concerns, such as assessment and management of environmental and social risks and impact, land acquisition and involuntary migration, labor and working conditions, and climate change, etc. A social and environmental protection framework based on different project characteristics such as location, size and impact can help Chinese financial institutions better identify potential environmental and social risks of financed projects. In addition, Chinese financial institutions may cooperate with multilateral development banks such as the World Bank and the ADB to gain better insights into how to design and implement the policies.

5.2.2 Enhance Chinese Financial Institutions’ Assessment Capacity

CSR practices require considerable resources input by participating institutions. As seen in Chapter 4, China Exim Bank assigned three staff members in charge of reviewing and approving the SGR project. The SGR project was only one of the many infrastructure projects handled by the limited staff. With such limited human resources, the quality of the social and environmental risk assessment was in doubt. According to a project manager of China Exim Bank, the banks’ greatest challenges in carrying out internal audits were the high costs of acquiring information on environmental and social risks and the lack of qualified professional auditors. With a growing number of projects waiting to be approved, China’s Exim Bank’s Approval and Management Department with fewer than thirty staff members is under great pressure. Without adequate qualified personnel involved in the lending process, the credibility of China Exim Bank’s social and environmental risk assessment is questioned.

It is necessary to enhance the capacity of Chinese financial institutions to carry out risk identification, monitoring, and evaluation to effectively control, mitigate, and reduce overseas investment risks. A lack of professionals with backgrounds in environmental and social risk

523 Interview with project manager of China Exim Bank
assessment limits a bank’s professional capability in this area. There should be more research and training as well as more technical environmental and social management teams in order to strengthen environmental and social management capacity. In particular, Chinese financial institutions should create specialized teams for assessing environmental and social risks in their credit and lending businesses. Also, as will be discussed at greater length below, third party monitoring is important to enhance transparency and credibility of Chinese financial institutions’ green lending process. As green finance requires specialized technological and environmental knowledge, the special teams should undertake a series of training programs. For example, Hong Kong and ShangHai Banking Corporation (HSBC) offers a diverse range of environmental and social risks-related training programs, including a senior on-boarding training program, risk management program, and senior risk management program. HSBC also launched a climate business learning program designed to educate its commercial banking relationship managers on renewable energy technologies and relevant financing structures.524

The team or department in charge of credit risk management or sustainable finance should be based either at the headquarters or in branches of financial institutions. Each branch’s sustainable finance department formulates evaluations based on the information it receives from the bank’s operations department. The evaluations should then be delivered to headquarters for review. This is particularly important for reviewing high-risk transactions and investments. Financial institutions should periodically undertake internal verifications to evaluate the consistency of environmental and social risk policy and analysis. Financial institutions may employ external audit services to support the development and improvement of internal controls for environmental and social analysis.525

5.3 Improve Transparency

The Chinese government and its affiliated institutions have often been criticized for their low transparency in governance and policy-making. This transparency problem can also be observed

in China’s state-centric approach to CSR. The Chinese government disclosed very limited information on the implementation of its CSR policies. In particular, China Exim Bank as a critical gatekeeper of CSR performance in the SGR project, did not make its assessment report on the environmental and social impact of the SGR project available to the public. China Exim Bank is not the only Chinese financial institution that fails to publish such reports.

Chinese financial institutions normally do not actively report their activities in the same way as other international financial institutions. In general, Chinese financial institutions do not provide effective communication or sufficient information regarding project selection and assessment criteria, potential negative impacts on affected regions and groups, or dispute resolution. The disclosure of information on business activities and their associated environmental impact is an important step in building public confidence in sustainable infrastructure construction. For overseas loans, documents on the projects they finance should be made available to affected communities before project approval. The types of information that should be documented and disclosed include the project’s name, location, and sector; environmental impact assessments; social impact assessments; indigenous peoples’ plans; and resettlement action plans, etc.

For the SGR project, CRBC published China’s first overseas project CSR report, which included details on the implementation of CSR practices throughout the construction process. This was an encouraging step forward. This type of CSR publication helps other stakeholders learn about CRBC’s CSR performance and more effectively monitor CSR compliance throughout the project. However, the report was not audited by an independent third party. Moreover, although the CRBC did release CSR reports for the SGR project, the SOE’s internal social and environmental policies are not available to the public. It is difficult to determine how national policies are incorporated into CRBC’s corporate policies and work plans. There is also uncertainty about the degree to which CRBC follows its own written corporate policies in actual practice.

To ensure the transparent enforcement of Chinese overseas companies’ internal policies, Chinese policymakers should require the public disclosure of such policies on corporate websites. To better strengthen environmental information disclosure, it is necessary for Chineses regulatory authorities to strengthen legislation in order to better regulate listed companies to disclose environmental and social information. Since 2003, Chinese regulatory authorities and stock exchanges have issued a series of policy documents and guidelines to force or encourage domestic enterprises to disclose environmental information. “The Overall Reform Plan for Ecological Civilization” in 2015 proposes to establish a mandatory environmental information disclosure mechanism for Chinese listed companies.\(^{527}\) In August 2016, “Guideline on Building a Green Financial System” clearly proposes that China should establish a mandatory environmental information disclosure system for listed companies step by step. Shenzhen Stock Exchange and the Shanghai Stock Exchange have issued corresponding guidance and relevant documents on Environmental and Social Governance (ESG) Information Disclosure.\(^{528}\) This lays a foundation for China to introduce mandatory ESG information disclosure requirements through legislation. China Securities Regulatory Commission requires that all Chinese listed companies shall disclose environmental information by the end of 2020.\(^{529}\)

In this way, stakeholders can scrutinize overseas companies and hold them accountable for their behavior. Chinese companies should fully disclose environmental and social information through CSR reports and strengthen public participation to ensure accountability to affected communities, especially in countries where regulatory agencies are not well developed. The information should be comprehensive and concrete to reflect the economic, social, and environmental impact of overseas operations and CSR performance. The information should also


135
fully disclose the company’s CSR principles and frameworks, and the company’s CSR systems, measures, and performance. Such information should be provided in Chinese, English, and the local language(s). The information may relate to a wide range of topics: the company annual CSR report, social and environmental policies, sustainable development reports, operational details and business development plans, environmental protection initiatives, job opportunities, employee policies, employee benefits, employee codes of conduct, health and safety management, or social welfare funds and projects. In countries with less access to the Internet and social media, Chinese companies should communicate through radio, brochures, and press conferences to ensure stakeholders’ accessibility to the information.

5.4 Enhance Internal and External Monitoring Mechanisms

5.4.1 Enhance the Responsibility of Directors and Senior Managers

Vertical oversight within the corporate hierarchy is vital to monitor the implementation of the guidelines. In the SGR case, while the head office issued internal CSR rules, it did not exercise sufficient monitoring over how overseas subsidiaries implemented the rules. The head office should not only issue rules but also install enforcement mechanisms within the corporate group by enhancing the responsibility of directors and senior managers.

In the SGR project, managers’ social and environmental performance records were linked with their career development. CRBC project managers who violate Kenyan regulations and cause negative environmental and social impact would be warned or criticized by the Chinese embassy and reported to the CCCC. In serious cases that cause major financial losses or reputational damage to Chinese SOEs, the political careers of project managers or even senior managers in the CCCC could be affected accordingly. In the meantime, affected officials would face administrative disciplinary actions including demotion, termination, or even criminal prosecution. These disciplinary sanctions imposed by the Chinese government play an important role in driving managers’ behavior.

The Chinese government’s personnel control over Chinese SOEs and financial institutions is an idiosyncratic monitoring system, rather than a usual supervisory system seen in modern business organizations. In the SGR case, there seemed very limited involvement by the board of directors,
the central governing institution of a modern corporation. The board of directors who act as the formal authority of corporate decision-making play significant roles in bringing about organizational reform.\textsuperscript{530} The board’s commitment is crucial to the successful implementation of environmental and social risk management. A prevailing practice of CSR at the board level of Western companies is to set up a CSR special committee. The committee is in charge of reviewing and enacting the company’s CSR policies. Chinese companies may borrow the Western practice to enhance internal environmental monitoring systems and to better promote Chinese companies’ sustainable investment in the future.

Chinese companies and financial institutions should ensure that their board of directors or senior management continuously monitor and evaluate their company’s sustainability policies, and approve sustainability policies with frequent reviews and updates.\textsuperscript{531} They should also conduct an annual review and update of environmental and social risk management strategies and development direction. For example, the board of ICBC has authorized the President of the bank to review and approve the bank’s sustainability policy annually.\textsuperscript{532} Particularly, senior managers and directors ought to be required to conduct due diligence on the adequacy of their companies’ environmental and social risks management system and the accuracy of the reported environmental and social risks data. Senior managers and directors should be responsible for the assertions and claims made in the CSR report, the integrity of information on environmental and social risks, and oversight procedures and internal CSR management systems. Transactions that pose significant environmental, social, or reputational risks should be reported to the board for review. Directors who fail to consider the impact of environmental and social risks on their business could be held personally liable for breaching the duty of due diligence they owe to their companies.


In addition, managerial compensation and promotions could be linked with social and environmental performance. More specifically, the directors and senior managers of Chinese financial institutions could be evaluated for their performance in carrying out sustainable development goals. A relevant performance indicator in this regard could be “environmental and social contribution per share.” Chinese companies and financial institutions could retain a certain percentage of senior management’s performance-based income as a risk fund to be realized in the future based on the evaluation results. These measures are designed to help management hold long-term sustainable development visions rather than focusing on short-term performance.

Indeed, some Chinese SOEs and financial institutions have already evaluated and compensated their managers partly based on CSR performance. For example, Industrial Bank incorporates sustainable development performance into senior management performance evaluation and compensation. Senior management of ICBC is evaluated by indicators such as “social contribution per share,” to uphold social responsibility and pursue sustainable development. However, CSR performance only accounts for a very small portion of the evaluation. The evaluation criteria are typically vague and lack operation details. The CSR performance indicators should be specific and should be disclosed to the public in corporate annual reports.

5.4.2 Enhance External Monitoring Mechanism

In addition to internal monitoring, external monitoring is important. In the SGR project, there was no third-party monitoring or grievance mechanism for affected people to file complaints to China Exim Bank during construction. According the project manager of the China Exim Bank, for transactions with higher risk, China Exim may engage with third parties to conduct

533 Ibid., 9.
534 Ibid.
537 Ibid.
538 Interview with director of WWF-China
monitoring and/or site visits. For lower-risk transactions, the in-house environmental and social team usually monitors environmental and social performance and accepts documentary evidence to confirm compliance with environmental and social agreement.\textsuperscript{539} The lack of third-party monitoring of China Exim Bank damaged the overall credibility of its ESIA process and impacts the overall transparency of the lending process.

Several monitoring mechanisms could be used to ensure the effectiveness of regulatory tools, including “monitoring by the meta-regulator, peer monitoring by the members, or third-party monitoring by an independent evaluator.”\textsuperscript{540} The establishment of cooperation mechanisms with third-party institutions has the advantage of using private standards and intermediaries as a complement to legal and policy approaches. External verification requires extensive engagement with the companies and stakeholders to verify companies’ CSR performance and risk exposure.\textsuperscript{541} Chinese financial institutions should introduce external verification to their environmental and social risk management systems. For high-risk subprojects, it should be compulsory for Chinese financial institutions to hire professional third-party auditing organizations to conduct environmental and social risks. Under the current CSR reporting regime in China, independent third-party assurance performed by a major accounting organization is already a standard practice among large companies.\textsuperscript{542} Most multinational financial institutions often use external auditing services to monitor clients for a variety of pre-credit and post-credit activities on a regular or ad hoc basis. However, many Chinese financial institutions invite third party assurance only to review their annual CSR reports, but do not use verification from an independent third party for their environmental and social risk management systems.\textsuperscript{543}

External monitoring should focus on four key areas: First, it should ensure that environmental and social risk management obligations are implemented in accordance with the terms of the

\textsuperscript{539} Interview with project manager of China Exim Bank


contract. Second, it should confirm that project construction and operations comply with host countries’ environmental and social standards as well as industry and loan agreements. Third, financial institutions should ensure that the project developer is in compliance with the project finance management rules by regularly submitting environmental and social risk management reports. Finally, monitors should verify that the project developer is in compliance with the designated requirement to report negative environmental and social impact in environmental and social risk management report. At Citibank, for example, environmental and social covenants are monitored either by an independent consultant or internally by the client’s environmental team members. In addition, portfolio managers at Citibank conduct annual credit reviews of all transactions, which ensure client compliance with environmental and social covenants.544

In addition to third-party auditing, Chinese financial institutions should establish grievance mechanisms to enhance external monitoring to ensure sustainable lending. A grievance mechanism is an independent oversight authority that reports directly to the president of a financial institution and ascertains the application of environmental and social protection standards. It aims to promote dispute resolution through dialogue, fact finding, or advice. It is a formal mechanism to protect individuals, employees and communities that are adversely affected by commercial issues.545 Any person, group, or community affected or likely to be affected is eligible to file a complaint related to any aspect of the planning, implementation, or impact of the financed project. Complaints that are filed through the grievance mechanism are continuously monitored and disclosed after project approval in order to resolve disputes or conduct compliance surveys.

Having a grievance mechanism in place has become a standard practice for international financial organizations such as the World Bank and the ADB. In the SGR project, China Exim Bank did not have a grievance mechanism for affected communities to file complaints regarding

---

545 ADB and IFC have set up Compliance Audit Office and Compliance Advisor/Ombudsman, responsible for compliance audits and dealing specifically with complaints with three functions of dispute resolution, compliance investigation and consultancy. Database of Complaints Mechanism Cases, online: <http://www.eib.org/about/accountability/complaints/cases/index.htm>, accessed on October 10, 2017.
the SGR project. To better ensure sustainable lending that can benefit local communities, Chinese financial institutions should set up independent complaint and accountability mechanisms to protect local communities and residents. As an example, the IFC, a corporate arm of the World Bank, has established a grievance mechanism through which people or entities affected by Chinese-financed projects can file complaints with a compliance ombudsman. This office is an independent oversight authority that reports directly to the president of the World Bank Group. It ascertains the application of IFC standards and manages complaints through dispute resolution, compliance investigation, and consultancy.\(^{546}\) The ADB has set up a separate accountability mechanism, which has two offices: a Special Projects Promotion Office (responsible for solving disputes) and a Compliance Audit Office (responsible for compliance audits).\(^{547}\)

In addition to resolving issues for affected individuals, grievance mechanisms can provide financial institutions with policy advice on environmental and social behavior through environmental and social audits and reviews. An ombudsman’s team conducts field visits to contested project sites and interviews a company’s staff, local authorities, affected community representatives, and other relevant local organizations. Complaints reports of field missions, and recommendations are all published on the compliance ombudsman’s website with updates on ongoing investigations. After considering complaints, the compliance ombudsman formulates recommendations for the financial institution and company involved. In this mechanism, financial institutions are required to appoint independent personnel to oversee projects and report on social and environmental matters, and investment companies must report on social and environmental issues to financial institutions on a quarterly and annual basis. If a project’s impact violates the project’s safeguard policy and other relevant criteria, financial institutions can then revoke the project’s funds.

---


\(^{547}\) More detailed information on the specific procedure can be found in the CAO Operational Guidelines, online: <http://www.cao-ombudsman.org>, accessed on May 1, 2015.
5.5 Build Effective Communication with Local NGOs and Media

The state is only one albeit an important stakeholder in promoting CSR. Exclusive reliance on the state without significant input from other stakeholders remains ineffective to CSR development. While the Chinese government may exert tight control over domestic civil society, its administrative influence over overseas civil society is much more limited. China’s political powers cannot constrain public participation and civil society’s involvement in CSR in democratic host countries. Media and NGOs in foreign countries, especially democratic ones, could play significant roles in monitoring companies’ behavior as external observers, representing disadvantaged voices and reflecting real and urgent needs at the local level. Without the sufficient engagement with the civil society of the host country, Chinese companies may face difficulties communicating with local communities about their true needs regarding CSR programs. As discussed previously, to better reduce potential conflicts and litigation risks, Chinese government agencies and companies in host countries should enhance their communications with local NGOs and media.

Effective partnerships with stakeholders are therefore crucial to building a healthy operational environment overseas. Chinese companies should work to foster trust, social interaction and communication with local communities and NGOs in the host country. As discussed in Chapter 2, one of the greatest limitations of the state-centric CSR approach is its potential to weaken the balancing role of stakeholders and limit the space for civil society. In the SGR project, although liaison officers were hired to help communicate with the local community for the SGR project, CRBC’s collaboration with local NGO researchers and media professionals remained very limited. The lack of effective communication with local media and NGOs in the SGR project resulted in misunderstandings between CRBC and local communities on land compensation issues. Conversely, direct and effective communication with local NGOs and media would help enhance mutual understanding and trust, reduce local resistance to operations, and gain positive public image.
Like CRBC, many Chinese companies operating overseas do not understand the importance of local media, NGOs, and communities in determining the success of their investment projects. This is probably because Chinese companies do not experience active civil activities domestically as civil society and the media in China are strongly controlled by the government. However, China’s political powers cannot constrain public participation and civil society’s involvement in CSR in democratic host countries. When operating overseas, Chinese companies should recognize that civil society has significant influence on the operation of business. Civil society could play significant roles in monitoring companies’ behavior as external observers, in representing disadvantaged voices, and in reflecting real and urgent needs at the local level. Civil society can also impose great pressure on companies to change behavior. This is evident in that in the face of social and environmental campaigns, Western companies have relied on public relations agencies and in-house public relations professionals to deflect criticism from NGOs and the media. There is no reason to expect that Chinese overseas companies can escape the civil society pressure faced by Western companies.

Accustomed to their domestic political culture, many Chinese overseas companies prefer to foster good relationships with local and central governments in host countries, rather than dealing with NGOs. As the program officer of China House pointed out: “Chinese companies do not want to deal with institutions other than the government, including civil organizations. It is a matter of culture and awareness.” Paying attention to relationships with the government while ignoring the engagement with local NGOs and media will not only make it difficult to win the support of local people, but may also pose huge political risks to investment projects, especially in less developed areas with more turbulent political environments. Ignoring or avoiding communication with non-governmental actors causes misunderstandings and complications for Chinese companies. As seen in the SGR project, CRBC complained that its

548 Interview with project manager of Centre for Training and Integrated Research for ASAL Development.
551 Interview with program officer of China House
voice was not heard by local communities, while local communities struggled to convey their own messages to Chinese companies. During the process of project investment and operations, it is necessary for Chinese companies to develop a platform to improve communication with local communities, labor unions, ethnic and religious groups, and local and international NGOs and media to avoid potential misunderstandings.

CSR programs should be based on the sentiments of local people and the consideration of their community’s long-term development needs.\(^ {552}\) Local NGOs play an important mediating role between Chinese companies and local communities. Chinese overseas companies should effectively strengthen communication with the local community with the help of NGOs. These organizations can aid Chinese overseas companies in creating CSR policies sensitive to the local demands through objective and impartial monitoring and evaluation, open sharing of experiences, and adequate and practical capacity-building initiatives. Building good relationships with local media is important too as they have great influence on projecting a positive or negative image of Chinese companies to local people. Close engagement with local NGOs and media could help companies build trust and social capital. Early and active engagement with local NGOs and media could also help companies identify potential environmental conflicts and promote cooperation with host countries. In addition, taking the initiative to cooperate with local NGOs and media could help Chinese companies enhance transparency, avoid unnecessary conflicts, and gain the understanding of local residents and the international community.

As environmental governance varies in each country due to different social and cultural environments, Chinese overseas companies sometimes face complex challenges in understanding local laws and regulations in host countries. With the help of local NGOs and media, Chinese overseas companies can more easily learn about local laws, norms and cultures. The WWF’s help to Chinese companies in Gabon is a good example.\(^ {553}\) Chinese companies in Gabon faced many barriers including language and culture in communicating with the local communities there. Local NGOs in Gabon and the WWF helped translate local regulations into Chinese and

---


introduced Gabon’s forest management guidelines to Chinese companies. As a result, the Chinese companies, local government, and Chinese government agreed to establish the Gabon-China Sustainable Forestry Roundtable facilitated by WWF in June 2014. This collaboration helped communication between Chinese companies and local stakeholders.\textsuperscript{554}

5.6 Chapter Summary

This chapter proposes policy recommendations to address the limitations of China’ state-centric approach to CSR. Specifically, this chapter proposes measures to improve the effectiveness of the Chinese government’s broad guidelines, to develop safeguard framework and assessment capacity of Chinese financial institutions, and to enhance information disclosure and monitoring mechanisms. It also proposes that Chinese companies should build effective communication with local NGOs and media in host countries. These practical policy suggestions may help Chinese companies’ CSR behavior abroad. The improvement of Chinese companies’ environmental and social performance would in turn promote China’s sustainable overseas investment.

\textsuperscript{554} Ibid.
Chapter 6: Conclusion

6.1 Concluding Remarks

This dissertation examines the benefits and limitations of China’s state-centric CSR approach in promoting China’s sustainable investment overseas through the qualitative and quantitative analysis of Chinese CSR policies and an empirical study of the SGR project in Kenya. The findings of this dissertation show that the state-centric approach can have positive impact on promoting CSR. Under the state-centric approach, the Chinese government is not only a regulator but also an important stakeholder of Chinese SOEs in advancing CSR. The Chinese government can influence the behavior of Chinese SOEs and state-controlled financial institutions through the power to appoint their board members and senior managers. The Chinese government uses its various institutional connections to the SOEs and financial institutions to create a stronger awareness of policy objectives and provide incentives for policy implementation. In addition, under the state’s guidance, Chinese companies and financial institutions are increasingly following global trends in adopting socially responsible business practices. Hence, state-centric CSR presents a complementary regulatory approach that can address the potential limitations of conventional CSR approaches that rely on market logic, altruism, or active civil society as motivational factors. However, the state-centric approach does possess its own limitations. These include the lack of engagement with civil society actors and its inability to influence privately-owned Chinese companies outside of the Chinese state’s control in host countries.

This dissertation specifically examines how China’s state-centric approach has been applied in Africa. In particular, the dissertation uses the case study of the SGR project in Kenya to reveal the strengths and limitations of the state-centric approach in advancing Chinese companies’ overseas CSR. This is done mainly through the analysis of the key actors in the implementation of the SGR project, including the Chinese government, China Exim Bank and the CRBC, the Kenyan government and local NGOs and media. It shows that the CSR commitments made in the SGR project were a result of coordination among the Chinese government and its affiliations, with very limited input from local NGOs and media.
Based on the review of Chinese CSR policies and the empirical case of the SGR project, this dissertation proposes policy suggestions to improve the state-centric approach. The policy recommendations include: improving the implementation of broad and vague guidelines, developing environmental and social safeguard framework and assessment capacity, enhancing information disclosure, strengthening internal and external monitoring, and engaging with local NGOs and media. Hopefully, the policy recommendations may improve Chinese companies’ overseas CSR performance and in turn improve relations between Chinese investors and African peoples, and eventually improve environmental justice.

However, it should be noted that this dissertation only examined the role of the state-centric SGR in one Chinese SOE engaged in infrastructure construction in Kenya. Given different governance cultures between Chinese SOEs and privately-owned companies, the state-centric approach may not be equally effective in influencing the practices of Chinese privately-owned companies that are relatively autonomous from the Chinese government. Moreover, given the varying economic and social conditions in different African countries, whether the state-centric regulatory approach is applicable to other Chinese investment projects in other African contexts requires further empirical examination.

6.2 Future Research Agenda

This dissertation is a starting point for further research on China’s state-centric approach to CSR overseas. It has laid a foundation for future empirical work to analyze the strengths and limitations of the state-centric approach in promoting Chinese sustainable overseas investment. Future research may develop in three directions as suggested below to understand China’s sustainable investment overseas.

1. Many internal and external factors can influence a Chinese company’s CSR behavior, including the political and economic environment in which the corporation operates, the existing regulatory condition, the size of investment, the ownership type of investing entity, the characteristics of the industrial sector, etc. Whether the empirical findings of the Kenyan case study are equally applicable to other Chinese companies in other African countries merits further study.
2. As infrastructure investment projects have long lifecycles, post-operation monitoring on their social and environmental impact is important and warrants future academic attention. This ongoing oversight probably plays a more significant role in protecting host countries’ interests and influencing foreign investors’ economic, social, and environmental practices than the entry screening of foreign investment.

3. While Chinese infrastructure investment in Africa is mainly dominated by SOEs, private companies are playing an increasingly important role through “aggressively investing and reinvesting their capital, filling critical market niches, and employing locals and conducting skills training at a higher rate than SOEs.” With governmental support, private Chinese companies could be an even more powerful force in Africa’s development. While Chinese embassies and government commercial offices located in African countries have easy access to Chinese SOEs, they have limited resources to track environmental and social behavior of Chinese privately-owned companies. More attention should be paid to Chinese private companies operating overseas and how their governance structures can be improved. It remains unclear how their overseas CSR behavior is influenced by China’s state-centric approach.

Bibliography


Chen, Yunan (2018), “Silk Road to the Sahel: African Ambitions in China’s Belt and Road Initiative” (Johns Hopkins SAIS-CARI Policy Brief No.23), online:<
https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5b67f63b562fa7f5d579f835/1533539945322/Yunnan+Belt+and+Road+-+Final+Version.pdf>, accessed on August 8, 2018.


Database of Complaints Mechanism Cases, online:


Deloitte (2016), “Kenya, Africa’s Grounding Growth”, online:


Dupuy, Pierre-Marie and Viñuales, Jorge (eds.), Harnessing Foreign Investment to Promote Environmental Protection: Incentives and Safeguards (Cambridge: Cambridge University Press, 2013)


Gallagher, Kevin et al. (2016), “The Globalization of Chinese Development Finance” (Boston University, Global Economic Governance Initiative), online:
Ge, Chazhong et al. *Environmental Policies on China’s Investment Overseas* (China Environmental Science Press, 2010).


Han, Xiuli. Study on Chinese Companies on Environmental Protection during Overseas Investment (Law Press China, 2013), 121-127.


Hilson, Gavin (2013). “Corporate Social Responsibility in the Extractive Industries: Experiences from Developing Countries” 37(2) Resources Policy 131-137.


Kibugi, Robert et al. (2016), “Large Scale Land Acquisitions for Investment in Kenya: Is the Participation, and Benefits of Affected Local Communities Meaningful, and


Leung, Denise and Zhao, Yingzhen. Environmental and Social Policies in Overseas Investments: Progress and Challenges for China (World Resources Institute, 2013).


Ministry of Commerce of China (2016), “2016 China Foreign Direct Investment Statistical Bulletin”, online: <


Rotberg, Robert (ed.). China into Africa: Trade, Aid, and Influence (Brookings Institution Press, 2009).


online:<http://ink.library.smu.edu.sg/cgi/viewcontent.cgi?article=1004&context=line_reports>, accessed on May 28, 2016.


Spear, Thomas et al. (eds.) Being Maasai: Ethnicity and Identity in East Africa (Oxford: Jame Currey Ltd, 1993).


The United Nations Global Compact, online: <https://www.unglobalcompact.org/>, accessed on April 8, 2015.


Laws and Guidelines


## Appendix 1: List of Interviews

<table>
<thead>
<tr>
<th>No.</th>
<th>Organization</th>
<th>Interviewee</th>
<th>Source of Recruitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UN Environment</td>
<td>Official</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>2</td>
<td>UN Environment</td>
<td>Official</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>3</td>
<td>China Council for International Cooperation on Environment and Development</td>
<td>Staff</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>4</td>
<td>National Development and Reform Commission</td>
<td>Official</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>5</td>
<td>International Cooperation Centre of National Development and Reform Commission</td>
<td>Researcher</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>6</td>
<td>Kenya Wildlife Service</td>
<td>Staff</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Environmental Protection, China</td>
<td>Deputy Director</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>8</td>
<td>WWF-Africa</td>
<td>Project Manager</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>9</td>
<td>WWF-China</td>
<td>Director</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>10</td>
<td>WWF-China</td>
<td>Project Manager</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>11</td>
<td>Institute of International Development Cooperation at the Chinese Academy of International Trade and Economic Corporation, MOFCOM</td>
<td>Director</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>12</td>
<td>Institute of International Development Cooperation at the Chinese Academy of International Trade and Economic Corporation, MOFCOM</td>
<td>Deputy Director</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>No.</td>
<td>Organization/Position</td>
<td>Contact Type</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>-----------------------</td>
<td>--------------</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>China Civil Engineering Construction Corporation, Former General Counsel</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Chinese Embassy in Kenya, Officer</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Ministry of Environmental Protection to UN Environment, Representative</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Economic and Commercial Counselor’s Office of the Chinese Government to Kenya, Counselor</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>China Export-Import Bank, Project Manager</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>China-Africa Excellency Foundation, Project Manager</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>China House, Program Officer</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Kenya Coalition for Wildlife Conservation and Management, Staff</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>The Kenya China Economic and Trade Association (KCETA), Vice Secretary</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Centre for Training and Integrated Research for ASAL Development (CETRAD), Project Coordinator</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>African Station, China Central Television, Head</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>African Station, China Daily, Head</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>China Road and Bridge Company (Kenya), Project Manager</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>China Road and Bridge Company (Kenya), Public Relations Officer</td>
<td>Personal Contact</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>China Road and Bridge Company (Kenya), Engineer</td>
<td>Cold Email</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>China Road and Bridge Company (Kenya), Engineer</td>
<td>Cold Email</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>China Road and Bridge Company (Kenya), Liaison Officer</td>
<td>Cold Email</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Organization Name</td>
<td>Position</td>
<td>Contact Type</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------------------------</td>
<td>-------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>30</td>
<td>China Road and Bridge Company (Kenya)</td>
<td>Liaison Officer</td>
<td>Cold Email</td>
</tr>
<tr>
<td>31</td>
<td>Great Wall Drilling Company of China National Petroleum Corporation</td>
<td>Project Manager</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>32</td>
<td>China Wu Yi Co., Ltd. (Kenya Branch)</td>
<td>Project Manager</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>33</td>
<td>SinoHydro Corporation Limited (Kenya)</td>
<td>Project Manager</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>34</td>
<td>Power China (Kenya)</td>
<td>Project Manager</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>35</td>
<td>China Gezhouba Group Company Limited (Kenya)</td>
<td>Project Manager</td>
<td>Personal Contact</td>
</tr>
<tr>
<td>36</td>
<td>Kajiado County Government</td>
<td>Officer</td>
<td>Cold Email</td>
</tr>
<tr>
<td>37</td>
<td>Kajiado County Government</td>
<td>Officer</td>
<td>Cold Email</td>
</tr>
<tr>
<td>38</td>
<td>Mombasa County Government</td>
<td>Officer</td>
<td>Cold Email</td>
</tr>
<tr>
<td>39</td>
<td>Mombasa County Government</td>
<td>Officer</td>
<td>Cold Email</td>
</tr>
</tbody>
</table>
Appendix 2: Interview Guideline for Chinese Infrastructure SOEs in Kenya

Perception of Chinese companies’ environmental risk during foreign investment

1. What is the status of your company’s investment in Kenya? What is the impact of “Going Out” policy on your company’s investment in Kenya? What is Africa's strategic significance and impact with regard to Chinese foreign investment?
2. What is the environmental performance of Chinese companies like in Kenya?
   2.1 Are there any existing environmental risks?
   2.2 How do you respond to the existing criticism on the environmental performance of Chinese companies and their exportation of bad behavior? (Neocolonialism, corruption, environmental pollution, human rights violations, etc.)
3. What are the differences between your company’s current and previous environmental performance? If the change is positive, what has improved? What are the reasons for this improvement?
4. How do environmental, economic and social risks interact with one another during foreign investments?
5. Why and how do Chinese companies need to pay attention to environmental risks when making foreign investments? What kind of environmental and social protection measures has your company taken to reduce environmental risks?

Perception of corporate social responsibility

1. What is your perception of corporate social responsibility (CSR)?
2. Are there any CSR programs in your company?
   Are there any reasons behind the establishment of this CSR program? How have the programs gained attention from corporate management?
3. What specific measures do your company’s CSR programs include?
   What is your perception of western criticism regarding window dressing of Chinese companies’ CSR programs in Kenya?
4. What functional and operational adjustments has your company made to reflect CSR in its environmental and social behavior?
5. What are the strategies your company uses to implement CSR standards effectively? (How you communicate with local people, how you communicate and cooperate with external agencies, how you comply with international environmental standards)
6. How does the scale of a company affect its CSR programs?
(Central SOEs versus provincial SOEs; large-scale SOEs versus small and medium private companies)

7. What are the similarities and differences between the environmental policies of Chinese companies and those of the headquarters and branch offices?

**Factors impacting Chinese companies’ environmental performance in Kenya**

1. What regulatory tools and factors influence the environmental behaviors of Chinese companies?
2. What are the implications of Chinese domestic environmental policy for foreign investment overseas and environmental protection?
   2.1 The Chinese government has adopted a number of policies. However, most of them provide guidance without being legally binding. What is the impact of these guidelines and regulations on Chinese companies’ environmental performance in Africa?
   2.2 In addition to traditional legal mechanisms, which financial institutions influence Chinese companies’ environmental and social behaviors?

**Companies’ perception of infrastructure projects’ impact on local communities**

1. What do you think your companies’ infrastructure projects’ impact on the environment and social interests (like forest, pasture, farmland, livelihood, transportation) of local communities is?
2. Do you think construction will affect the local community’s land or make them the community move from its current land? Who will be responsible for the compensation?
3. Does the affected community know the construction project and the impact of your company? Are there any meetings or discussions being held with local communities about the possible impact of the construction?
4. Has your company tried to consult with local environmental organizations about the construction plan?
5. What are Chinese companies’ current and potential contributions to African environmental governance?
Appendix 3: Interview Guideline for Government Officials

The status of China’s investment in Kenya

1. What is the status of Chinese companies’ investment in Africa? What is the impact of the going abroad policy on Chinese companies in Kenya?
2. What is your response to existing criticism on Chinese companies’ exportation of bad behavior? (corruption, environmental pollution, human rights violation, etc.)

Perception of Chinese companies’ environmental risk during foreign investment

1. What is the environmental performance of Chinese companies like in Africa? Are there any existing environmental risks?
2. What are the differences between Chinese companies’ current and previous environmental performance? If the change is positive, what has improved? What are the reasons behind this change?
3. How do environmental risk, economic risk and social risk interact during foreign investment?
4. Why and how do Chinese companies need to pay attention to environmental risk when making foreign investments? What kind of environmental protection measures have Chinese companies taken to reduce environmental risk?
5. Are there any differences in the environmental standards between SOEs and private companies?

Factors influencing Chinese companies’ environmental performance in Africa

1. What regulatory tools and factors influence the environmental behaviors of Chinese companies?
2. What are the implications of Chinese domestic environmental policy for foreign investment overseas and environmental protection?
   2.1 The Chinese government has adopted a number of policies. However, most of them provide guidance without being legally binding. What is the impact of these guidelines and regulations on Chinese companies’ environmental performance in Africa?
   2.2 In addition to traditional legal mechanisms, which financial institutions influence Chinese companies’ environmental and social behaviors?
3. What can the Chinese government do to better regulate Chinese SOEs’ environmental and social behavior in Kenya? Are there any models from other countries?
Appendix 4: Interview Guideline for China Exim Bank

Sustainable lending policies and practices of China Exim Bank

1. What type of capacity building activities does China Exim Bank undertake with regards to Environmental and social risk management?

2. What is China Exim Bank’s approach to managing environmental and social risk in its lending activities?

3. Has the bank committed to any other sustainable finance initiatives?

4. Please describe the bank’s sustainability policies for managing environmental and social risks?

5. Does China Exim Bank publicly disclose its sustainability policies?

6. Who has ultimate oversight of sustainability issues within the bank?

7. Who is responsible for approving the bank’s sustainability policies, and how often are these reviewed and updated?

8. Are the ratings and remuneration of directors/senior management linked to performance with regards to sustainability? If so, how?

9. Does the bank have a dedicated team, or teams, responsible for assessing potential environmental and social risk of lending activities? If yes, how many employees work in this team?

10. When environmental and social risks have been identified, what risk mitigation measures does the bank apply?

11. Does China Exim Banks’ internal audit team review the bank’s environmental and social risk management performance?

12. Does China Exim Bank obtain external assurance on the environmental and social risk management performance? If so, are the results of the assurance disclosed publicly? If not, why not? Are there currently any plans to develop external assurance in future?
Appendix 5: Interview Guideline for Staff Members of Environmental NGOs and UN Environment

Perception of Chinese companies’ environment risk during foreign investment

1. Outlook on China’s investment in Africa: What is the status of Chinese investment in Africa?
2. What is the environmental performance of Chinese companies like in Kenya and in other countries? How do you respond to existing criticism on the environment situation of Chinese companies in Africa? (Neocolonialism, lack of environmental impact assessment and implementation, etc.)
3. What are the differences between Chinese companies’ environmental conservation practices in Africa compared to other countries?
4. What was Chinese companies’ current and previous environmental performance like? If there have been positive changes, what are the improvements? What are the reasons behind these improvements?
5. How do environmental, economic and social risks interact?

Your organization’s role in regulating companies’ environmental performance

1. Have the environmental risks during foreign investment begun to receive your organization’s attention? Why and how does your organization need to pay attention to environmental risk during foreign investments?
2. What is the role of your organization in improving the environmental performance of Chinese companies?
   2.1 What kinds of environmental protection measures has your organization taken to reduce environmental risks?
   2.2 Are there any successful cases?
   2.3 How does your organization interact with other local environmental NGOs and communities?
3. Are there legal difficulties in regulating multinationals’ environmental performance effectively in Africa? Which regulatory tool most affects companies’ environmental performance?
4. What efforts has your organization made to regulate companies’ environmental performance? What’s the future contribution of your organization in this regard?
5. What further efforts has your organization made to improve Chinese companies’ environmental performance overseas and prevent environmental risks in the future?
### Appendix 6: Policies, Plans and Strategies Involved in Environmental and Social Impact Assessments for the Project

**National Environmental Policies**

| 2. | Environment Policy (2013) |
| 6. | Environment Management and Coordination (Noise and excessive vibration Pollution Control) Regulations, 2009 |
| 8. | The Prevention, Protection and Assistance to Internally Displaced Persons and Affected Communities Act (2012) |

**National Environmental Plans and Strategies**


**Affected Communities’ Plans and Strategies**


Author’s Compilation
Appendix 7: Kenya China Economic and Trade Association Members

The list is extracted from 2017 Chinese Overseas Companies in Kenya Social Responsibility Report (As of May 31, 2017)

1. Ever-do International Logistics Supply Chain Co., Ltd.
2. Bank of China, Nairobi Representative Office
3. China Railway Construction Corporation International Limited (EastAfrica)
4. China Road and Bridge Corporation (Kenya)
5. China Wu Yi Co., Ltd. (Kenya Branch)
6. China Sichuan International Cooperation Co., Ltd. (Kenya Office)
7. ZTE Kenya Limited
8. CNPC Great Wall Drilling Company
10. China Jiang Xi International Kenya Limited
11. Stanbic Bank (Kenya)
12. Sinopec International Petroleum Service Corporation
15. Kenya Office, China Railway Seventh Group Co., Ltd.
16. China North Industries Corp. (NORINCO Kenya)
17. China Overseas Engineering Group Co., Ltd. (East Africa)
18. China Petroleum Pipeline Bureau (CPP) Limited
19. GCL New Energy Kenya Limited
20. AVIC International Holding Corporation
21. Nanchang Foreign Engineering Company (Kenya) Limited
22. Sichuan Huashi Overseas companies
23. Corporation East Africa (E.A) Limited
24. AHCOF Investments (Kenya) Company Limited
25. Huawei Technologies Kenya Co., Ltd.
26. Weihai Construction Group Co., Ltd. (Kenya)
27. BETT Company (K) Ltd.
28. Hunan Road & Bridge Construction Group Corporation Ltd.
29. China CAMC Engineering Co., Ltd.
30. China Electric Co., Ltd.
31. China Railway No.5 Engineering Group Co., Ltd.
32. SANY Heavy Industry Co., (Kenya) Ltd.
33. China Railway No.10 Engineering Group Co., Ltd.
34. China Jiangsu International Economic and Technical Cooperation Corp. East Africa Branch
35. Jiangxi Water and Hydropower Construction Co., Ltd.
37. China State Construction Engineering Corporation Kenya Limited
38. The Third Engineering Bureau of China City Construction Group Co., Ltd.
39. SINOTEC Co., Ltd. (Kenya)
40. China Zhongxing Construction Co., Ltd.
41. Weihai International Economic & Technical Cooperative Co., Ltd.
42. China Henan International Cooperation Group Co., Ltd. (Kenya)
43. China International Water & Electric Corp.
44. Fushun Construction Corporation
45. China Communications Services Corporation Limited (Kenya)
46. China Electric Power Equipment and Technology Co., Ltd. (Kenya)
47. China Dalian Economic & Technical Cooperation Group Co., Ltd. (Kenya)
48. Goldsail Asia Africa Logistics Ltd.
49. Jiangsu Entern Co., Ltd.
50. Sinotruk Machinery and Equipment Co., Ltd. (Kenya)
51. Shanxi Dikuang Overseas Engineering Construction (Kenya) Limited
52. China Railway 21st Bureau Group (Kenya) Co., Ltd.
53. Chongqing International Construction Corporation (CICO)
54. CRJE (East Africa) Ltd.
55. China Telecom (Kenya) Ltd.
56. Foton Motor Kenya Ltd.
57. StarTimes Media (Kenya) Company Limited
58. China Machinery Engineering Corporation
59. CGCOG Group Co., Ltd.
60. NARI Group Corporation
61. Jiangxi Transportation Engineering Group Corporation Kenya Ltd.
62. Danafu Co., Ltd. (Kenya)
63. Greenroad Kenya Ltd.
64. TBEA International Kenya Limited
65. Afasia Express Kenya Ltd.
66. China Gezhouba Group Company Limited (Kenya)
68. HouseMart (Sunda International) Co., Ltd.
69. China Civil Engineering Construction Corporation (Kenya) Limited
70. Songying Industrial Company
71. Jiangxi Youse Construction (Group) Co., Ltd.
72. Central Southern China Electric Power Design Institute Co., Ltd. (Kenya)
73. Yocean Group
74. SinoHydro Corporation Limited
75. China Jiang Xi International Kenya Limited