U.S.–Asia Law Institute
New York University School of Law

The Social Role of Corporations in Asia-Pacific

CSR as CPR: The Political Logic of Corporate Social Responsibility in China

By Jiangyu Wang
Published March 19, 2022

The practice of corporate social responsibility (CSR) has increasingly become a widespread phenomenon in China.[1] Thousands of Chinese companies are now publishing CSR reports on yearly basis. Before 2005, Chinese companies issued a grand total of only 22 CSR reports. The number in 2019 was 2,089.[2] Under the umbrella of CSR, Chinese firms, including both state-owned enterprises (SOEs) and privately-owned enterprises (POEs), have made donations for charitable or public interest purposes and invested in projects to contribute to the sustainability of the social, economic, and ecological environment within which they operate.

On the surface, Chinese CSR practices are not very different from those in Western-developed economies. Chinese companies have adopted global CSR reporting templates as convenient tools to deliver CSR results and address the concerns, at least rhetorically, of domestic and international consumers, investors, and environmental activists. Thus, Chinese and Western CSR reporting has demonstrated a significant degree of convergence of themes and standards, particularly with respect to reporting business firms' social, environmental, ethical, and stakeholder-related performance.[3] Bearing in mind the inevitable national differences among even Western countries in CSR practices, empirical surveys of the published CSR reports could be read to suggest that Chinese and Western companies fulfill their social responsibilities in the same manner and with the same goal of managing the company's relationships with society.

That would be a misunderstanding insofar as the drivers of CSR in China are concerned. In the West, CSR is a bottom-up form of private business self-regulation by which companies volunteer to support societal goals of a philanthropic, environmental, or human rights nature. To a significant extent, CSR in the Chinese context has been a top-down project in which companies support the political agenda of the ruling Chinese Communist Party (CCP) and government, including poverty reduction (which strengthens party legitimacy), environmental protection (which seemingly has become a personal preference of China's paramount leader Xi Jinping), and the CCP's goal of "national rejuvenation."

CSR in China is in fact CPR. That is, "corporate social responsibility" is essentially "corporate political responsibility" driven by a political logic that establishes a relationship between business and the state rather than between business and society. The following four points show how this political logic plays out.

First, institutionalized CSR in China was a creation of the state. The concept of CSR was introduced into China by foreign-invested enterprises (FIEs) in the 1990s and early 2000s as part of their brand-building efforts. It gained little attention in China, as shown by the previously mentioned fact that only 22 CSR reports were published in China from 1991 to 2005. However, when the National People's Congress, China's legislature, amended the Company Law in 2005, it codified CSR as a legal obligation even though there was no native soil for CSR in China's own business ecology. Article 5, vague as it is, provides that "a company shall … bear social responsibility when undertaking business operations." Following the legislation, the Shanghai and Shenzhen stock exchanges and the State Assets Supervision and Administration Commission (SASAC), which serves as both the owner and regulator of SOEs, enacted rules requiring listed companies and SOEs to do CSR reporting.[4] It is thus fair to characterize CSR as a state-imposed obligation rather than the voluntary commitment of businesses to build a better society.

Second, CSR is an SOE-led practice. Various empirical research suggest that SOEs outperform POEs and FIEs on CSR indexes in terms of CSR awareness and maturity. For instance, in 2010-2011, SOEs scored 71.5 in the ranks of Best in Class and Leaders among China's top 100 firms.[5] The 2021 report on CSR in China produced by the Chinese Academy of Social Sciences finds that the CSR index scores of SOEs were much higher than those of POEs and FIEs for 13 consecutive years from 2009 to 2021.[6] Clearly, this is because SOEs are more responsive to the government's CSR calls and guidance.

Third, the content of CSR is state policy-driven. CSR activity as reported by Chinese firms tends to mainly address the concerns of the Chinese state as embedded in CCP and government policy documents as well as regulations issued by central ministries and local governments.[7] The initial official promotion of CSR in China, including the codification of the CSR in the Company Law, was pushed by then-Chinese President Hu Jintao's political agenda for "building a harmonious society" in China.[8] As a result, the CSR reports issued by companies, limited in number, primarily disclosed CSR activities that were specified in the guidelines issued by SASAC, the stock exchanges, and other government agencies to implement the vision of balancing economic growth "with the need to tackle pressing social and economic problems."[9]

Fourth, CSR has become a political survival strategy for some companies in China that struggle in an increasingly hostile environment because of Chinese President Xi Jinping's recent crackdown on Big Tech firms and other business sectors. Government measures have included restructuring local government debt, harsh regulatory and anti-monopoly measures against big internet companies, cooling down the housing market to deflate a real estate bubble, clamping down on the private education industry, and tighter enforcement of tax laws against those who reaped sudden riches through online businesses. China's mega internet firms, which are at the front line of the crackdown, have found that an effective way to avoid trouble is to make generous contributions to the "common prosperity" (共同富裕) project advocated by President Xi as the signature policy of his governing philosophy. President Xi personally called for curbs on "excessive" income and urged the rich in China to give back more to society.[10] Not surprisingly, in the wake of the intensified regulatory scrutiny from Beijing; Alibaba and Tencent, China's two largest tech firms, each committed RMB 100 billion (US$ 15.5 billion) over the next five years for the president's common prosperity initiative.[11] A number of China's internet nouveau riche, including Pinduoduo founder Colin Huang, Meituan's Wang Xing, and Xiaomi's Lei Jun, have collectively pledged billions of dollars to social causes in the name of common prosperity. Reportedly, the donations will be invested in technology innovation and economic development to promote rural revitalization, high-quality job creation, higher earnings for low-income groups, etc. Alibaba CEO Zhang Yong said of the financial commitments, "We are eager to do our part to support the realization of common prosperity through high-quality development."[12]

There is no doubt that some other factors are also driving CSR development. Many companies, eyeing global markets, have adopted CSR as an internationalization strategy. We also should not rule out the growing concerns of domestic investors and consumers who have shown interest in the shares and products of companies that are socially responsible corporate citizens.[13] However, the state is obviously the major force behind CSR development in China.

On this basis, we can draw two conclusions. First, the emergence of the CSR movement in China was led by the Chinese party-state's political agenda, which was initially establishing a "harmonious society" and now is the "Chinese dream" of President Xi Jinping to achieve "common prosperity" for Chinese society. CSR is always a tool for the

Chinese leadership to advance its top policy objective rather than the voluntary actions of business companies to align their interests with the community. If Chinese business firms were free to choose their own social causes to support, it is difficult to imagine that they would have selected the same ones currently demanded by the Chinese party-state.

Second, the gist of the Chinese CSR model is that the party-state serves as a middleman between society and business, claims that it represents the best interests of society and, on this basis, demands that business pursue social and environmental goals that will strengthen the party-state's legitimacy in ruling the country. Although the nature of CSR makes it inevitable that companies will have direct contact with the community and stakeholders, it is understood, in the Chinese context, that business firms do those good things in response to the calls of the party-state, and that society would not receive CSR benefits without the party-state pushing for CSR on its behalf.

The same political logic applies to ESG (environmental, social, and governance) reporting and investing in China, though it is increasingly obvious that the driving factors behind ESG are more diversified. As elsewhere, companies in China are rapidly moving toward reporting on their ESG policies and practices. A white paper on ESG development in China found that by June 2021, 1,112 of the nearly 4,000 listed companies in the A-share market – shares denominated in RMB – issued ESG reports. Only 371 listed companies did this in 2019.[14] More than 100 ESG funds undertaking sustainable investing had been established in China by 2021. While CSR and ESG are both about a company's relationship with society and the environment, ESG establishes quantifiable criteria for investors to assess a company's sustainability and societal impact. The advantage of this approach is that it enables the full integration of environmental, social and governance considerations into risk analysis and business decisions. Further, it provides investors with more information about the risks, societal values and sustainability of business models so that they can identify business opportunities and allocate capital in particular ways.

Compared with CSR, ESG reporting in China is less developed but moving forward steadily as a project jointly driven by policy-makers, regulators, and investors. The investment-driven nature of ESG makes it possible for the investors to play a more important role in this growing enterprise. Significantly, many large international asset managers who are signatories to the United Nations Principles for Responsible Investment (PRI) have not only stepped up their engagement with Chinese companies listed in Hong Kong and New York but also increased their holdings of A-share companies based on ESG considerations. On the other hand, as noted above, institutional investors in China are increasingly committed to the PRI and have begun to factor ESG considerations into their investment moves.[15]

Consistent with its policy stance on CSR, the Chinese party-state has very recently also jumped on the bandwagon of promoting ESG, although the policy and regulatory frameworks for ESG are still at a preliminary stage as compared with CSR. Insofar as ESG reporting is concerned, Chinese regulators have asked business enterprises to disclose environmental information at least since the 2002-promulgated Law on Promoting Clean Production, long before the concept of ESG emerged.[16] In 2008, the Environmental Protection Bureau and the China Securities Regulatory Commission (CSRC) established a joint mechanism to coordinate the exchange of information regarding regulating environmental disclosure. In September 2018, the revised CSRC Code of Corporate Governance formally established an information disclosure framework for ESG, which was followed by rules requiring ESG reporting for certain categories of listed companies listed on the two stock exchanges in Shenzhen and Shanghai. In January 2022, the Shanghai Stock Exchange revised its Listing Rules to provide detailed instructions on compulsory ESG disclosure for companies seeking public offering of shares.

Meanwhile, SASAC announced in June 2021 that it had made ESG "an important work for promoting SOE's performance of CSR."[17] Evidently at this stage, the SASAC regarded ESG as part of CSR and was mainly concerned with establishing a Chinese ESG rating system especially for the SOEs. This concern was driven by a perceived threat that foreign ESG rating systems might underestimate the value of Chinese companies. As a senior SASAC official pointed out:

> China's own ESG rating started late and hence lacked influence. As foreign rating agencies constantly expand their coverage of A-share companies, the applicability of their rating methods looks increasingly questionable. [Specifically], ESG rating results by foreign ESG rating agencies might [significantly] deviate from the real social value (真实社会价值) of Chinese companies, especially the SOEs, insofar as related-party transactions, poverty reduction, and the national project for constructing the new countryside are concerned. Therefore, China urgently needs to build its own ESG rating system to provide benchmark references for domestic and foreign investors to carry out ESG investment. [18]

Thus for the SASAC, the promotion of ESG is primarily a political project which "must be embedded in the overall situation of China's economic and social development and reflect the 'new development philosophy.' "[19] In particular, the ESG work of Chinese SOEs is expected to help address so-called "China's own issues" （中国议题）such as China's 2060 carbon neutral goal and the government's rural revitalization initiative, among others, for the purpose of contributing to China's high-quality economic and social development.[20]

In conclusion, CSR has been flourishing in China though, in contrast with its counterpart in the West, Chinese CSR follows a political logic of being state-led and state-driven and maintaining the Chinese state's performance-based legitimacy. In the past few years, ESG investment has been gaining increasing attention among institutional investors in China's capital markets, starting as a market-driven, bottom-up initiative. The Chinese government has very recently jumped on the bandwagon of ESG promotion. It is an open question whether ESG will be "nationalized" by the Chinese government, but there is no doubt the same political logic will shape the direction of ESG development in China.

Notes

[1] See Asit K. Biswas, Celilia Tortajada, "The Evolution of Chinese Corporate Social Responsibility," Project Syndicate, Dec 9, 2021.

[2] Goldenbee Research on Corporate Social Responsibility Reporting in China (2020) (Beijing: Social Sciences Academic Press, 2021).

[3] See generally Irina Ervits, "CSR Reporting by Chinese and Western MNEs: Patterns Combining Formal Homogenization and Substantive Differences," (2021) 6:6 *International Journal of Corporate Social Responsibility* 1-24. See also, Jeremy Moon and Xi Shen, "CSR in China Research: Salience, Focus and Nature," (2010) 94 *Journal of Business Ethics* 613-629.

[4] See, *e.g.*, 《关于国有企业更好履行社会责任的意见》, 国务院国有资产监督管理委员会文件， 国资发研究["Guiding Opinions on How State-owned Enterprises Can Better Perform Social Responsibility,"] [2016] 105号, SASAC Documents Guo Zi Fa Yan Jiu No. 105 of 2016.

[5] Jiahui Chen *et al.*, *Research Report on Corporate Social Responsibility of China* (Social Sciences Academic Press and Springer-Verlag Berlin Heidelberg, 2015), 17.

[6] 李扬等 (Li Yang et. al),《中国企业社会责任研究报告（2021）》[Research Report on Corporate Social Responsibility of China (2021)] (Beijing: Social Sciences Academic Press, 2021), 19.

[7] 金仁仙 (Jin Renxian), "中国企业社会责任政策的分析及启示" ["An Analysis of China's Corporate Social Responsibility Policies]， 《北京社会科学》2019年第8期 [8 *Beijing Social Sciences* 2019 No. 8] 22 at 27.

[8] See Jingchun Zhao, "The Harmonious Society, Corporate Social Responsibility and Legal Responses to Ethical Norms in Chinese Company Law," (2012) 12:1 *Journal of Corporate Law Studies* 163-200.

[9] Christopher Marquis and Cuili Qian, "Corporate Social Responsibility Reporting in China: Symbol or Substance?" (2014) 25: 1 *Organization Science* 127 at 129-130.

[10] Phillip Inman, "Chinese president vows to 'adjust excessive incomes' of super rich," *The Guardian*, August 18, 2021.

[11] Arjun Kharpal, "China's tech giants pour billions into Xi's vision of 'common prosperity,'" *CNBC*, Sept. 5, 2021.

[12] Id.

[13] See Sepideh Parsa *et al.*, "Corporate Social Responsibility Reporting in China: Political, Social and Corporate Influences," (2020) 51:1 *Accounting and Business Research* 36-64 (discussing global and national drivers and influences on the development of CSR in China).

[14] 《报告显示：上市公司ESG信息披露逐年提升》["A report reveals that the number of listed companies disclosing ESG is increasing on yearly basis"], *People's Daily*, December 21, 2021.

[15] World Economic Forum, "A Leapfrog Moment for China in ESG Reporting," White Paper, March 2021, p. 6 (hereinafter WEF White Paper).

[16] 中华人民共和国清洁生产促进法 [Law of the People's Republic of China on Promoting Clean Production], adopted by the Standing Committee of the National People's Congress on June 29, 2002 and amended on February 29, 2012.

[17] State-owned Assets Supervision and Administration Commission of the State Council, 国务院国资委将ESG纳入推动企业履行社会责任的重点工作 ["SASAC makes ESG an important part of the work of promoting SOEs' CSR"], July 21, 2021 (hereinafter SASAC, "ESG as CSR").

[18] Id.

[19] Id. The "new development philosophy" (新发展理念), comprising the concepts of "innovation, coordination, green, openness and sharing," was advanced by Chinese President Xi Jinping in 2015 as a guiding principle for his age of governing China. See Xi Jinping, "Understanding the New Development Stage, Applying the New Development Philosophy, and Creating a New Development Dynamic," 2021: 9 *Qiushi Journal*, July 2021.

[20] SASAC, "ESG as CSR," *supra* note 17.

Jiangyu Wang is a professor of Law and director of the Centre for Chinese and Comparative Law at the City University of Hong Kong School of Law.

Suggested citation:

Jiangyu Wang, "CSR as CPR: The Political Logic of Corporate Social Responsibility in China" in Symposium on the Social Role of Corporations in Asia-Pacific, *USALI East-West Studies*, 2, No. 5, March 23, 2022, https://usali.org/asia-pacific-symposium-essays/csr-as-cpr-the-political-logic-of-corporate-social-responsibility-in-china.

The views expressed are those of the authors, and do not represent those of USALI or NYU.