

# 国家责任竞争力(2007)

THE STATE OF RESPONSIBLE COMPETITIVENESS 2007

在全球市场中提升可持续性的重要性

Making sustainable development count in global markets

This is the English version of the original report published in China with exclusive essays



AccountAbility

WTO 经济导刊

编 译

FUNDAÇÃO DOM CABRAL

**FDC**

DEVELOPING EXECUTIVES AND COMPANIES

合作机构



企业管理出版社

ENTERPRISE MANAGEMENT PUBLISHING HOUSE

This publication presents the new content of the Chinese version of the ***State of Responsible Competitiveness 2007*** in English. The Chinese version was published as ***National Responsible Competitiveness 2007*** (Guojia Zeren Jingzhengli 2007) by the Chinese Management Enterprise Press in April 2008 (ISBN 978-7-80197-966-7). This book was translated and edited in collaboration with the ***WTO Tribune*** of the Chinese Ministry of Commerce's WTO Affairs Division.

This publication brings together new content from AccountAbility; long-time advocate of responsible competitiveness ***WTO Tribune*** Vice President Yin Gefei; a preface by veteran economic reformer Cheng Siwei, outgoing Vice Chairperson of the 17th Standing Committee of the National People's Congress; and a unique essay by the Chairman of Shanghai Pudong New District's Economic Board, Wu Quanguo, on City Responsible Competitiveness.

# Table of Contents

---

The table of content lists the essays from *The State of Responsible Competitiveness 2007*, but only those **highlighted** are exclusive to this Chinese version.

- 6**     **Chinese Foreword**, Cheng Siwei, Vice Chairperson, 17th Standing Committee of the National People's Congress
  
- 9**     **China's Opportunity to Embrace Responsible Competitiveness**, Simon Zadek, Chief Executive, AccountAbility and Alex MacGillivray, Head of Programmes, AccountAbility
  
- 34**    **The Responsible Competitiveness Index**, Paul Begley, Senior Researcher, AccountAbility; Alex MacGillivray, Head of Programmes, AccountAbility and Joshua Wickerham, Coordinator of Chinese Affairs, AccountAbility

## Building Low-Carbon Markets

*The Stern Review*, Dimitri Zenghelis, Economic Adviser, Her Majesty's Treasury, United Kingdom and Nicholas Stern, IG Patel Chair at the London School of Economics and Political Science

*Preparing for a Carbon-Constrained Future*, Jonathan Lash, President, World Resources Institute

*Reshaping Markets through an International Carbon Fund*, Nick Butler, Director of the Cambridge Centre for Energy Studies, Judge Business School`

## Key issues in Responsible Competitiveness

*Rebuilding World Trade and Economic Rules*, Guy Ryder, General Secretary, International Trade Union Confederation

*Transparency and Accountability as a Driver for Growth*, Peter Eigen, Chair of the Advisory Council, Transparency International and Jonas Moberg, Head of the Secretariat of the Extractive Industries Transparency Initiative

---

*Better Work: Promoting Labour Standards through Responsible Competitiveness*, Ros Harvey, Global Programme Manager Better Work Programme, International Labour Organisation; Houria Sammari, Senior Programme Manager, Environmental and Social Development Department and Annemarie Meisling, Private Sector Development Specialist, International Finance Corporation

*Gender Equality for Competitive Advantage*, Laura Tyson, Professor of Business Administration and Economics, Haas School of Business, University of California at Berkeley

*Civil Society and Responsible Competitiveness*, Kumi Naidoo, Secretary-General and Lorenzo Fioramonti, Senior Researcher, CIVICUS: World Alliance for Citizen Participation

*Can Faith Build Competitiveness?* Ambreen Waheed, Executive Director, and Faiz Shah, Co-Founder, Responsible Business Initiative

*Building Competitive Advantage through Responsible Business Practices*, Jean-Philippe Courtois, President, Microsoft International

## **Country and Regional Profiles**

*CSR and Competitiveness: A View from the European Commission*, Günter Verheugen, Vice-President of the European Commission in charge of Enterprise and Industry

*Southeast Asia: Fostering Competitiveness through Mutual Accountability*, Anwar Ibrahim, Honorary President, AccountAbility

*BRICS and Responsible Competitiveness*, Cláudio Boechat, Professor, Edna do Nascimento, Statistician, and Luana de Albuquerque Dapieve, Research Assistant, Fundação Dom Cabral

*CSR with Chinese Characteristics: Charting a Path Forward*, Aron Cramer, President and Chief Executive Officer, Business for Social Responsibility

---

*Responsible Competitiveness at the Regional Level*, Jeremy Nicholls, Director, Urban Strategy Associates and Paul Begley, Researcher, AccountAbility

**47 Enhancing Enterprise Responsible Competitiveness: Preparing for a Responsibly Competitive Era**, Yin Gefei, Vice President, Ministry of Commerce's WTO Tribune

**54 Raising City Responsible Competitiveness: The Pudong District's New Development Model**, Wu Quanguo, Director, Economic Committee of Shanghai Pudong New District

*Collaborative Standards Initiatives: Towards a Robust Platform for Sustainable Development*, AccountAbility

**64 Acknowledgements**

**65 Endnotes**

# Foreword

---

By **Cheng Siwei**

I am delighted that the *WTO Tribune* and the global think tank and consultancy AccountAbility are working together to publish “The State of Responsible Competitiveness.” This book brings us a new idea: Country Responsible Competitiveness. This idea of Country Responsible Competitiveness embodies many of the principles that accord with China’s process of implementing sustainable development strategies and the direction of constructing a harmonious society.

I’ve all along thought highly of the function of expert scholars in China’s economic development and reform. Expert scholars, although they can’t replace government decision making, still bring research achievements that can act as an important driving force for development.

In the 20th Century, developed countries started to enter the post-industrial era, and people gradually grew aware of protecting the environment and the importance of living in harmony with nature. With humankind’s entry into the knowledge economy, it is even more important to construct a new kind of culture which protects ecology, saves resources, improves working conditions, advocates gender equality, fights corruption, and is friendly to the environment. This kind of culture preserves countries’ ability to develop sustainably. It improves the foundation of competitiveness. Responsible competitiveness not only provides insight for corporations to not only act responsibly to protect the immediate region’s environmental and community development, but can seek opportunities for market rewards while contributing to resolving global environmental and social problems like global climate change, desertification, poverty, and inefficient resource use, among others.

---

From a country perspective, “The State of Responsible Competitiveness” provides guidance for the progression of our sustainable future, and also via an evidence-based index offers comparative analysis of the current state of responsible competitiveness for a large group of countries. This innovative work provides new ways and inspiration for China to improve its competitiveness. In addition, this publication makes clear the relationship between country competitiveness and responsible corporate action. This publication makes an excellent reference for Chinese companies, the government, and groups working to implement corporate responsibility.

This publication is useful for experts currently working in the fields of competitiveness and corporate social responsibility. I hope these experts can work to deepen their understanding of China’s current economic, environmental and social state to bring forth more thoughts and suggestions on how to improve China’s Responsible Competitiveness.



# China's Opportunity to Embrace Responsible Competitiveness

---

By **Simon Zadek** and **Alex MacGillivray**

China's competitiveness strategy is changing gear. Low-cost, labour-intensive exports have underpinned several decades of successful economic growth, topping 11% in 2007 and delivering employment to a rapidly expanding industrial labour force. But this development pathway is now reaching its limits for China and the rest of the world. Forced closures of factories producing contaminated food, revoked toy export licenses, strengthened labour laws and harsh penalties for senior officials found to be corrupt are all signs of changing times.

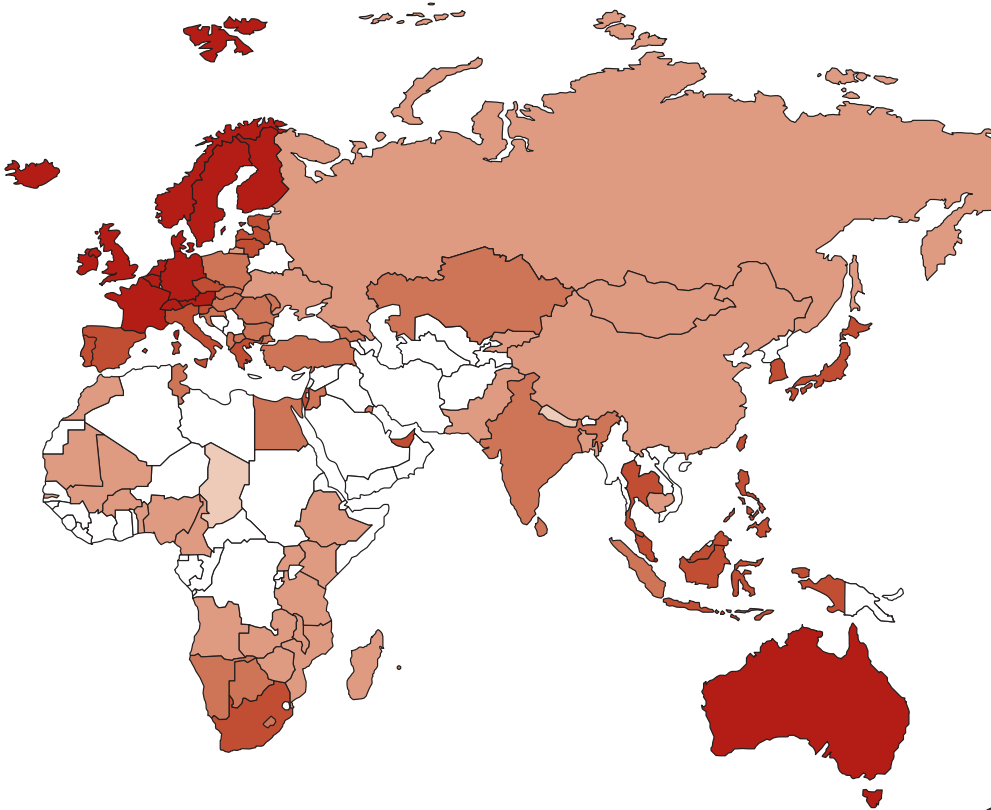
Official Chinese responses to domestic and international environmental concerns are shifting to emphasise links between sustainable growth and responsibility. Chinese and world leaders are recognizing that a new model of development is reshaping future markets to reward companies and economies that manage responsibility in the right way. AccountAbility recognises the risks and opportunities of this emerging global economic trend and label it "Responsible Competitiveness".

China's shifting gear towards a more responsible competitiveness makes timely economic sense. Allegations by competing nations of China's social and environmental dumping create barriers to trade. Despite huge domestic strides like limiting smokestack industry investment or China's first green stock index—the Taida Environmental Index in Shenzhen, concerns from governments over China's approach applying social and environmental investment criteria abroad may ultimately restrict access in its global search for natural resources. The country's potential for acquiring and growing global brands as a means of moving up the value chain may be frustrated in the face of powerful opposition from civil society organizations concerned over China's record on labour standards and environmental security.<sup>1</sup>

Building responsible competitiveness is about productivity and innovation as well as reputation. Flexible manufacturing, just-in-time inventory management, working with highly-mobile knowledge workers, developing a globally competitive service culture, and employing people closer to export markets, all require Chinese companies to engage with a wide range of standards, stakeholders, and deal with the social and environmental costs that are still mistakenly called "externalities".

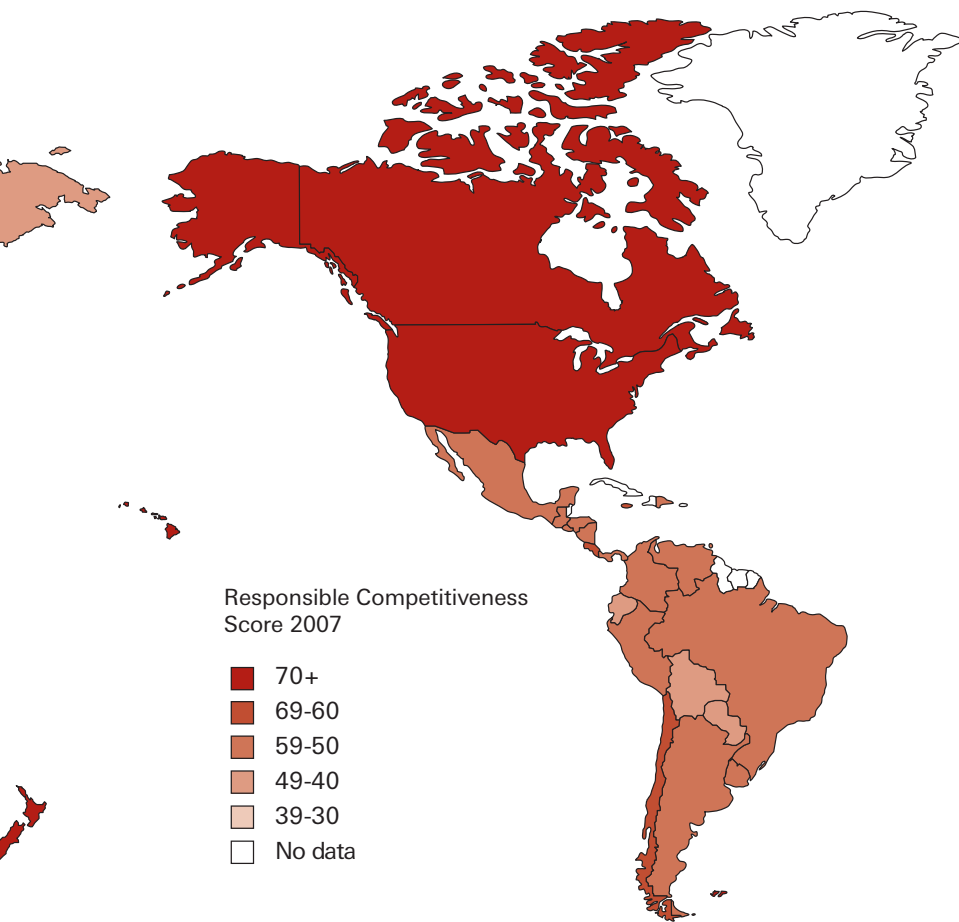
---

## The State of Responsible Competitiveness 2007



Forward thinking Chinese companies and ministries are already considering responsible competitiveness dynamics. In State Grid Corporation's most recent CSR report, President Liu Zhenya wrote that "balancing the pressures between economic advancement, social needs and their impact on the environment...[is]...the inevitable responsibility of every enterprise in the world."<sup>2</sup> Further underlining the importance of responsible business practices, former President of SINOPEC Wang Jinming stated at the UN Global Compact's Ministerial Roundtable "environmental protection and sustainable development is the duty-bound responsibility of the enterprises".<sup>3</sup>

Climate change is one of the fastest moving issues facing companies worldwide. China International Marine Containers Ltd., Haier Group Company, and the China Ocean Shipping Group (COSCO) have embraced the UN Global



Compact's "Caring for Climate" initiative with the United Nations Environment Programme and the World Business Council for Sustainable Development,<sup>4</sup> thereby committing to make reversing climate change part of their long-term responsible competitiveness strategies. Chinese citizen involvement is crucial for tackling climate change. One recent survey by the banking giant, HSBC, showing that Chinese are among the world's most concerned about climate change, and the most optimistic that it can be overcome.<sup>5</sup> Premier Wen Jiabao said that China's response to climate change is "a test of the government's accountability and also the responsibility China should bear for the international community".<sup>6</sup>

Forestry is another crucial issue. The Chinese Forestry Ministry now "positively guides and standardises Chinese companies' sustainable forestry

---

activities overseas, promotes the sustainable development of forestry in those countries (and) protects the international image of our government being responsible".<sup>7</sup> The consequences of failing to adequately assure such holistic business action can lead to profound consequences, such as American office supply retailer Staples' decision to suspend paper purchases from one company because of environmental concerns. This company is alleged to have unsustainably logged Indonesian rainforests. Staples said remaining a customer was "at great peril to our brand."<sup>8</sup> On the positive side, home improvement chain B&Q China has worked with groups like Greenpeace, the Forest Stewardship Council and the Tropical Forest Trust to stop all sales of the endangered tropical wood, merbau, urging mainland competitors to do the same.<sup>9</sup>

China's leading thinkers recognize that responsible competitiveness is not just built up from individual business actions, however. It is intimately linked to the country's transnationalisation strategies, export markets and national image, as well as to domestic conditions. China Construction Bank, in its first corporate responsibility report, sums up the challenge, saying "...our nation is still facing challenges on many fronts, such as imbalanced developments between cities and rural areas, the eastern regions and the western regions, economic growth and resource conservation...Building of social harmony...remains a solemn mission which is not to be accomplished in the short term and which will require nothing less than participation and dedication of the society as a whole, including every individual enterprise and citizen".<sup>10</sup>

This essay explores responsible competitiveness with a brief review of how the concept evolved, the themes of the *State of Responsible Competitiveness* (Chinese version) in the following 13 essays, and the thought behind the Responsible Competitiveness Index (further elaborated in the essay "The Responsible Competitiveness Index"). From this context, we explore how leaders can shape and benefit from the sustainable markets of the future.

### **What is Responsible Competitiveness?**

China's strategic shift to embrace the principle of responsible competitiveness is timely, because its current practice remains on the low end of global norms. On a range of measures of business responsibility, covering such diverse dimensions as corporate governance, levels of corruption, working conditions and environmental performance, despite a growing

---

number of exemplary cases, performance is still rated by Chinese business executives as below average by international standards. There are important exceptions to this, and standards of business responsibility are, of course, the outcome of not just business behaviour but the state of the wider environment in which it operates.

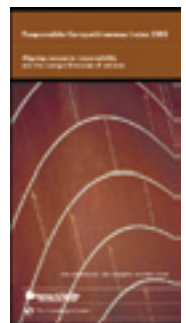
Since 2002, AccountAbility has been active with many partners in seeking to measure and understand the factors, individually and taken together, that advance the responsible competitiveness of nations. Its first report, the *Corporate Responsibility and the Competitiveness of Nations*, was launched at a joint meeting of the European Commission and the Danish Government's Copenhagen Centre. This initial report set out the challenge of how best to scale up the scope and impact of responsible business practices to become a core driver of productivity growth, wealth creation and economic success.



Pascal Lamy, then European Commission's Commissioner for Trade, framed the essential focus of Responsible Competitiveness in his opening preface to the report.

*"Until now, the debate has largely focused on what individual companies can do to enhance sustainable development goals. This pamphlet explores some of the challenges, dilemmas and tensions surrounding the CSR debate and notably the link between CSR and the competitive advantage of nations, the role of partnerships between business, civil society and the public sector, and the contribution public policy could make to strengthening the links between corporate responsibility and competitiveness."*<sup>11</sup>

The second bi-annual report, the '*Responsible Competitiveness Index*', was launched in late 2003 at the UN Global Compact Learning Forum in Salvador, Brazil. It set out a pilot Responsible Competitiveness Index (RCI), providing for the first time a country-level index exploring through quantitative analysis the relationship between national competitiveness and the national state of corporate responsibility. The methodological innovation was the development of a measure of the state of Responsible Competitiveness at a country-level, drawing on authoritative, third-party data streams, and the



---

### **Table 1: The UN Global Compact Principles**

The UN Global Compact brings together UN agencies, companies, labour organisations and civil society from around the world to support universal environmental and social principles. Since its launch in July 2000, the Global Compact has promoted responsible corporate citizenship by focusing on ten universal principles:

1. Businesses support and respect the protection of internationally proclaimed human rights
2. Businesses should make sure that they are not complicit in human rights abuses
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
4. Businesses should uphold the elimination of all forms of forced and compulsory labour
5. Businesses should uphold the effective abolition of child labour
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation
7. Businesses should support a precautionary approach to environmental challenges
8. Businesses should undertake initiatives to promote greater environmental responsibility
9. Businesses should encourage the development and diffusion of environmentally friendly technologies
10. Businesses should work against corruption in all its forms, including extortion and bribery

---

use of this measure in assessing the results against measures of national competitiveness provided by the World Economic Forum.

Quantifying this relationship in a meaningful way proved challenging, given weaknesses in the data and the knotty problem of causality. However, intensive investment since then has enabled us to improve the quality of the RCI, not least through our partnership with the Brazilian business school Fundação Dom Cabral. Through this, the RCI has evolved into a powerful tool for raising awareness and moving the debate beyond exemplary cases to a more systemic exploration of how best to embed responsible business practices in global markets.

*'Responsible Competitiveness 2005'*, the third bi-annual report, was launched at the UN Global Leadership Summit in Shanghai in December 2005, and subsequently in Washington, Geneva and El Salvador with outreach partners including the World Bank, UNCTAD and the Inter-American Development Bank. This embodied a further set of methodological innovations. Critically, it built on a two-year 'Global Dialogue on Responsible Competitiveness' involving dozens of multi-stakeholder convenings attended by hundreds of interested organisations and experts from Santiago to London, and from New Delhi to Johannesburg. Furthermore, it included a set of sector case studies of Responsible Competitiveness in practice, focusing down on the key role of collaborative initiatives in overcoming market and political impediments to advancing responsible business practices in global markets. For the first time, a regional version of the report was prepared for Latin America, *Competitividad Responsable*, working with two further partners, the Central American business school INCAE and the El Salvador corporate responsibility network Fundemas.



*AccountAbility's Responsible Competitiveness initiative has explored the practice and potential of specific sectors, factors, and geographies.* Our recent report, *Responsible Competitiveness in Europe*, based on extensive multi-stakeholder dialogues led by our four partners, two leading European business schools, ESADE and INSEAD, the European Policy Centre and the European Academy of Business in Society (EABIS), explored how the international competitiveness of three



---

European sectors, finance, information and communication technology and pharmaceuticals, could be improved through business-led and collaborative initiatives to enhance sector-wide responsible business practices. A study completed in 2006 for the United Nations Industrial Development Organization (UNIDO) focused on how small and medium-sized enterprise performance in developing countries could be improved by integrating them into 'responsibility clusters' supported by public institutions and involving civil society organisations. Building on this, Jeremy Nicholls and Paul Begley describe in their essay a pioneering effort to measure and build responsible competitiveness at the UK provincial and city level.

AccountAbility also recently signed an MoU with the Governor of the Saudi Arabian General Investment Authority (SAGIA), an agent of the Saudi Government, to advance a major initiative on responsible competitiveness in Saudi Arabia over the next three years. At the core of the initiative is the development of an RC Index that explores business progress in embedding RC, the Kingdom of Saudi Arabia's national competitiveness vision via RC, and the relationship between the two. The first phase of this work will be launched in January 2009 at the Global Competitiveness Forum in the Kingdom, one of the world's premier competitiveness forums. These are all exercises which could readily be replicated in China.

*Responsible Competitiveness is the DNA of effective strategies for advancing globalization with a human face.* Half a decade's practical research reveals important contemporary patterns and associated opportunities for advancing practice on the ground. At the core of this learning is the potential for reshaping markets through innovations in both economic value creation and accountability.

- ❖ *Building Value.* Integrating social, environmental and economic impacts into markets can be enhanced and accelerated by enabling associated opportunities to create economic value and business success, rather than maintaining an exclusive focus on ensuring compliance.
- ❖ *Collaborative Governance.* Building and promoting a new generation of voluntary standards and institutional transformations through collaborative, multi-stakeholder initiatives, is a powerful route for overcoming market constraints to advancing responsible business practices.

---

## The State of Responsible Competitiveness

AccountAbility's fourth bi-annual report, *The State of Responsible Competitiveness 2007*, upon which this Chinese report is based, was launched at a Ministerial Roundtable at the UN Global Compact Leaders Summit in Geneva in July 2007. The summit was attended by over 100 Chinese delegates. This report built on the momentum of recent years in furthering understanding of responsible competitiveness practice and potential, through:

- ❖ *Major enhancements to the Responsible Competitiveness Index (RCI)*, which now draws in more and better data, offers broader country coverage, and applies stronger statistical and analytic methods.
- ❖ *A broad-ranging collection of essays by world-leading experts on the links between specific issues and business impacts and international competitiveness*, including climate change, civil society, corruption, gender, labour and faith, as well as country and regional analyses.

The RCI is not a name and shame exercise with winners and losers, but a tool for diagnosing countries' progress and potential in developing their economies and enabling institutions to take advantage of new sources of economic opportunity at ever-higher levels in the value chain.

The RCI 2007 deepens our understanding of the drivers of responsible competitiveness through the improved application of more and better data. Emerging economies now represent half of the global economy and the majority of people on the planet. We have fulfilled our commitment to increase the RCI's country coverage, extending this cycle to 108 countries as compared to 83 in the second iteration and 51 countries in the pilot RCI 2003. The list now covers countries that account for 96% of global GDP, and includes 17 least developed countries. This broader coverage has inevitably restricted our use of data to those series that cover the entire country list. Despite this restriction, we have increased to 21 the number of hard and soft data series used, clustered into three primary domains:

- ❖ *Business action*: seven firm-level measures of the application of governance, social and environmental good practice, codes and management systems;
- ❖ *Policy drivers*: seven measures of the strength of public policies and 'soft power' that encourage responsible business practices; and

- 
- ❖ *Social Enablers*: seven measures of the broader social and political environment that enable businesses, government and civil society organisations to build effective collaborations to reshape markets.

Crucially, each of the data streams are drawn from authoritative, third party sources ranging from Transparency International to the World Bank Institute to the World Economic Forum. Each of the three domains combines hard data and opinion-based findings.

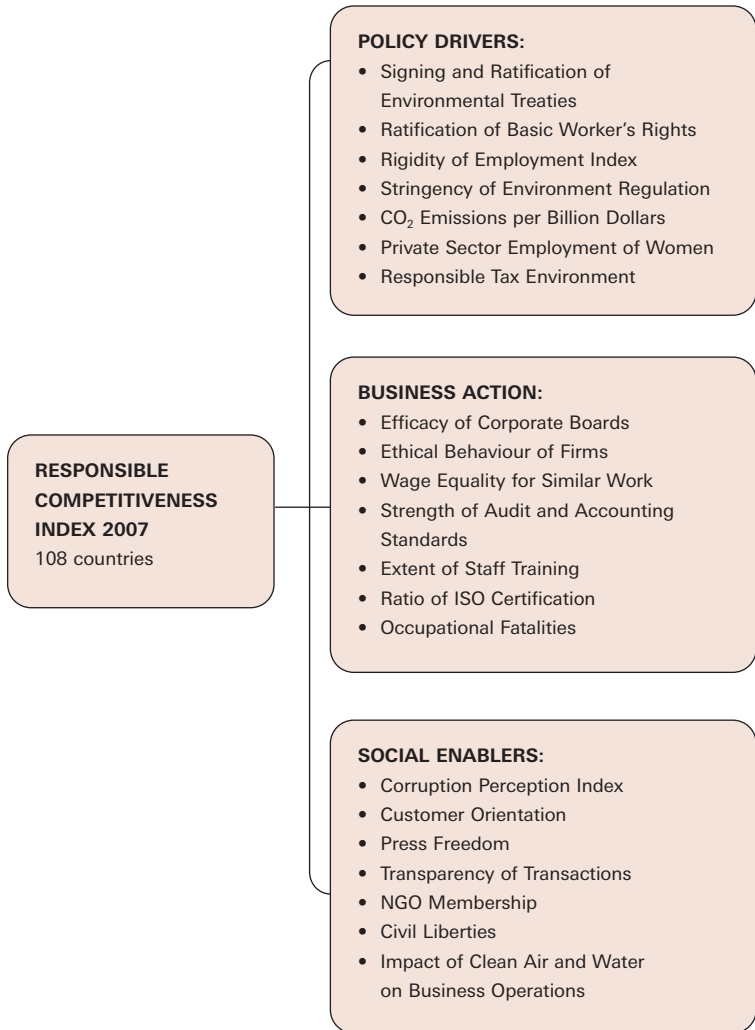
*Securing responsible and successful business practices can only be achieved through the combined effects of engaged businesses, smart public policy and a vibrant and engaged society.* The RCI 2007 therefore attaches significance to measures that reflect the role of blended drivers involving business strategies and practices, public policy, civil society and labour activism and engagement. The relative importance of these building blocks will of course vary between countries and over time. This requires a dynamic index that takes account of countries' needs, abilities and development levels. In the following chapter, we explain in more detail the methodology of the Responsible Competitiveness Index, and make observations on data quality, index sensitivity and statistical caveats. What follows here is an analysis of the headline results of the 2007 index.

## **Headline results**

The top line results of the RCI 2007 indicate that mature or developed nations, and European countries in particular, are most advanced in embedding responsible business practices at the heart of their economies.

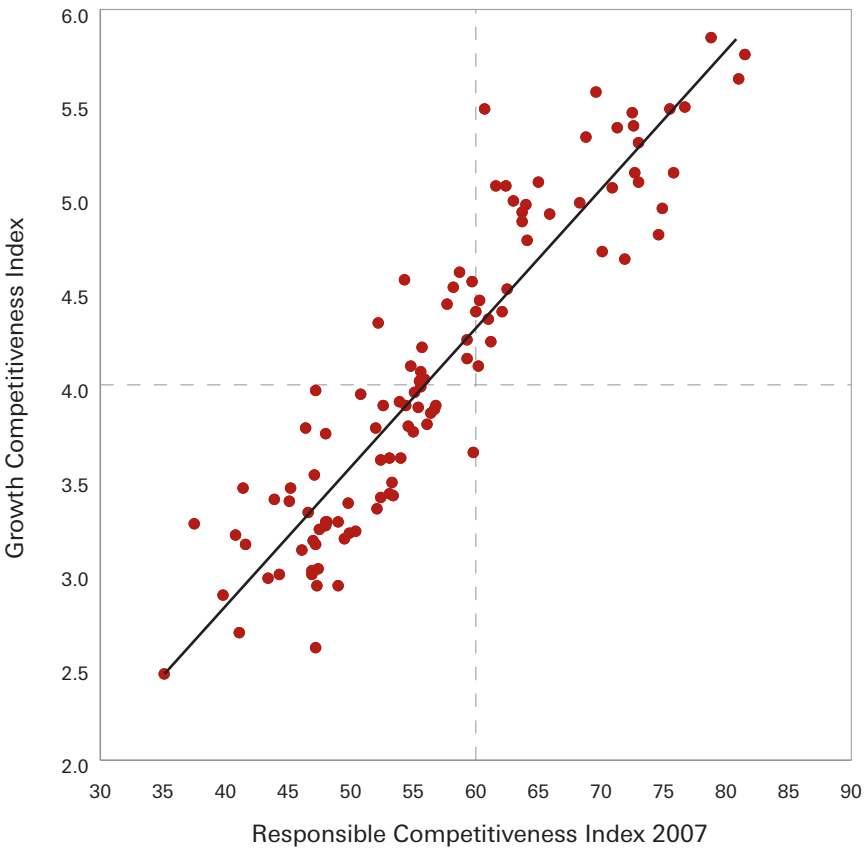
- ❖ Nordic countries dominate the list, with Sweden taking first place and Denmark, Finland, Iceland and Norway all being in the Top Six, alongside the UK.
- ❖ Thirteen of the 'Top 20' list are European countries. They are joined by Hong Kong (China), Japan and Singapore from Asia; Canada and the United States, and Australia and New Zealand.
- ❖ South Africa leads the so-called BRICS in 28th position, with Brazil, India, Russia and China extending down the list in that order (the essay by Fundação Dom Cabral explores the BRICS performance in more detail).

**Figure 1: Driving Responsible Competitiveness**



- ❖ Emerging economies like Chile, Malaysia and South Korea perform within the top quartile, and somewhat better than a number of states that have recently joined the European Union;
- ❖ Among the low-income countries, Zambia and Uganda perform better than countries at comparable levels of development, while in Cambodia, Morocco and Bangladesh, responsible competitiveness initiatives at sector level have yet to generate tangible results at national level.

**Figure 2: The 2007 Responsible Competitiveness Index and Growth Competitiveness**



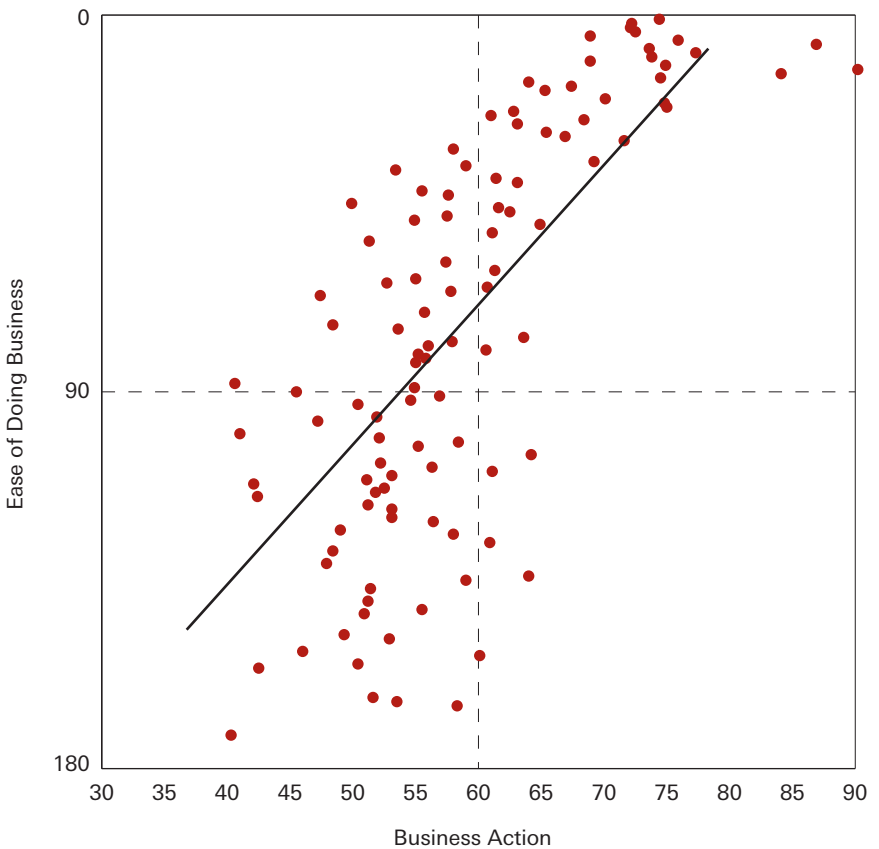
Source: Growth Competitiveness Index, World Economic Forum 06/07

### Comparative Analysis

The RCI 2007 results can be compared with those of RCI 2005. Across all countries covered in 2005 and 2007, we identify a discernible improvement in responsible competitiveness, from an average score of 59 to 63. However, progress has been by no means universal with a significant number of countries making strong progress, a group of countries that appear to have reached a natural ceiling and a further group who have lost ground.

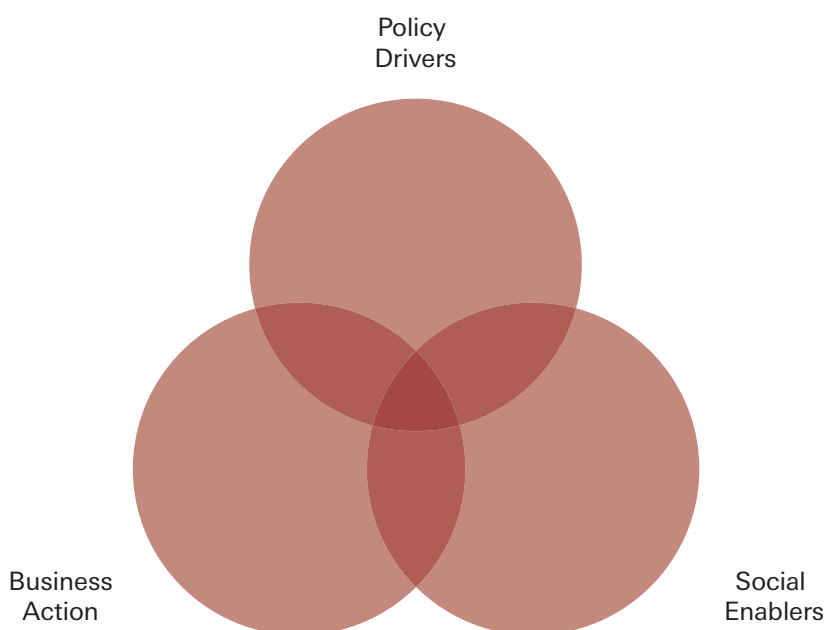
Comparing the RCI 2007 with relevant measures of competitiveness and business development shows a close correlation between countries' responsible competitiveness and their economic strengths, particularly interesting given the very different data being used by the respective indexes.

**Figure 3: The 2007 Responsible Competitiveness Index and Ease of Doing Business**



Source: Ease of Doing Business, [www.doingbusiness.org](http://www.doingbusiness.org), 2007

- ❖ The correlation between the RCI and the World Economic Forum's Growth Competitiveness Index ( $R^2=0.85$ ) indicates a strong relationship between responsibility and the most authoritative measure of country competitiveness.
- ❖ The correlation between the business action component of the RCI and the World Bank's 'Ease of Doing Business' index ( $R^2=0.53$ ) indicates that countries that perform well in advancing responsible business practices tend to be easier places to do business.



- ❖ There is also a positive correlation with the leading measure of globalization, the annual assessment by *Foreign Policy* and AT Kearney, for 67 countries ( $R^2=0.58$ ), suggesting that as countries become more exposed to global forces, more responsible business practices are one outcome.

### **Beyond the Headlines**

Headlines must be treated with some caution given the enormous differences between the 108 countries included in the RCI 2007, such as their economic structures, stages of development, and size. One particular problem is that wealthy countries can achieve high scores by externalizing negative social and environmental impacts into their global supply chains, which in turn counts against countries hosting major parts of those supply chains (the so-called 'pollution haven hypothesis'). One recent study showed that up to 40% of air pollutants in the Pearl River Delta in China can be directly linked to exports to more 'responsible' importers across Europe and North America.<sup>12</sup> Another study of 87 countries finds substan-

---

tial 'carbon leakage' in international trade, with 24% of Chinese carbon emissions in 2001 embodied in exports to Western nations that claim to be reducing their emissions.<sup>13</sup>

Unfortunately, at this stage there is inadequate systematic data across our large country sample to test this hypothesis within the main RCI. We did explore this issue by correlating a subset of RCI countries against data from UNCTAD of imports of polluting goods and services, but the results were statistically too weak to provide insights or policy-relevant results. We are committed to doing more work on this issue in future editions.

Similarly, headline results disguise considerable variation across specific indicators and domains.

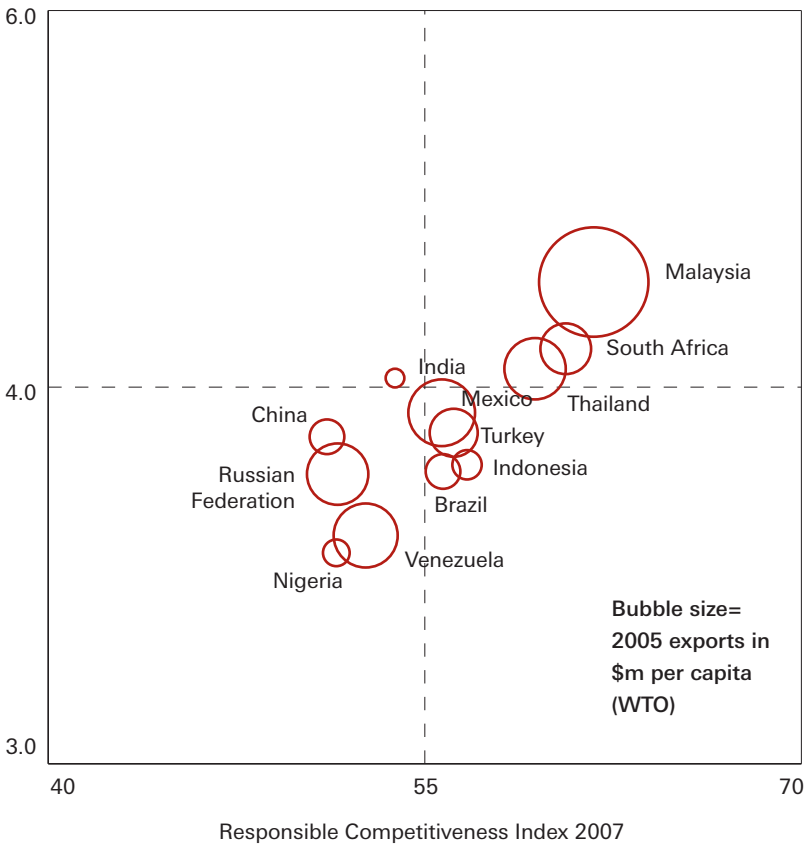
- ❖ China, for example, *scores well* on wage equality between men and women, meaning China is effectively utilizing its available workforce; *better than average* on occupational fatalities, indicating that a trend that goes beyond negative international headlines about worker safety; *just below average* on the strength of auditing and accounting standards and staff training, reflecting China's growing commitment to building worker capacity and transparent management systems; and *below average* on corruption and CO2 emissions.
- ❖ Comparing China's *performance against the other BRICS* across the three principle domains (government policy, business action, and social enablers) quickly reveals that its best performance is in the policy domain, whilst India and South Africa outperform the other BRICS on the business action domain.

### **Strategic Clusters**

Comparing higher-ranking countries such as Belgium, Malaysia and Costa Rica with lower-ranking countries like Paraguay, Pakistan and Mali has limited policy implications, as with other wide-angle lens international indexes like the Human Development Index and the World Economic Forum's Competitiveness Indexes. Examining sub-sets of countries is more helpful. Our analysis revealed a statistically-robust set of four clusters of countries, broadly distinguished by their stage of development.

What these clusters show is that there can be no standardised cookie-cutter approach to building responsible competitiveness. Countries need

Responsible Competitiveness Index and Growth Competitiveness Index in the EE12 (Emerging Exporters)

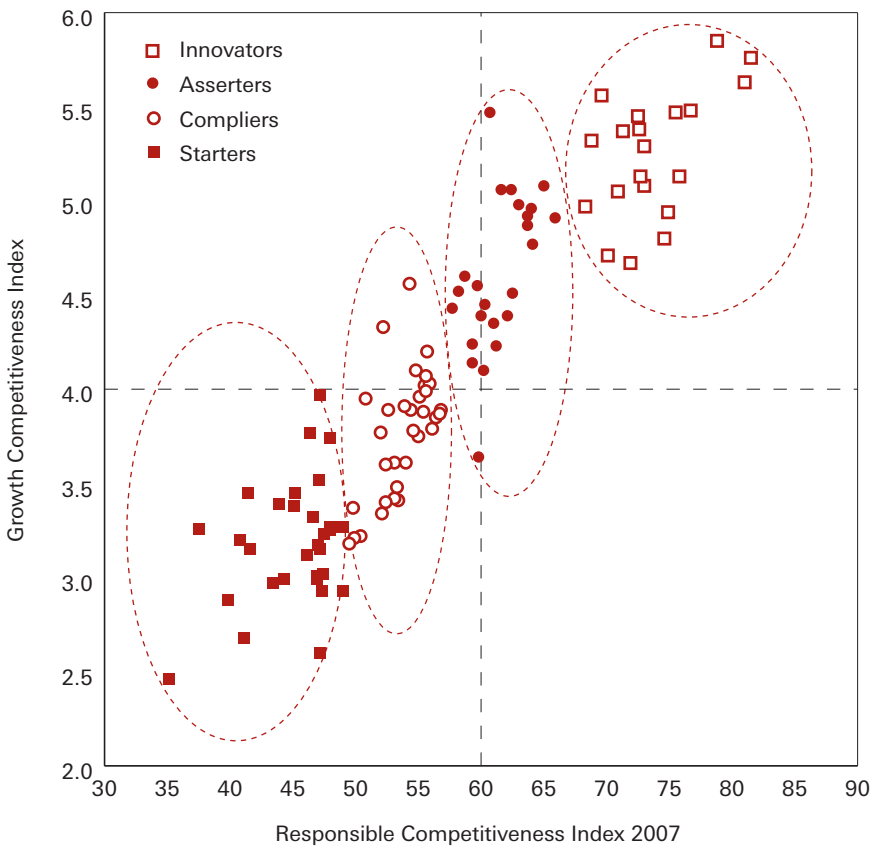


The EE12: China, Mexico, Turkey, India, Indonesia, the Russian Federation, Malaysia, Thailand, Nigeria, South Africa, Brazil and Venezuela

to design their own strategies, blending business action, policy drivers and social enablers in the most effective and appropriate combination for their stage of development. Nevertheless, some generalisations are possible for the four broad clusters of countries.

- ❖ *Starters (cluster four)*: this cluster of lowest scorers is made up of 31 countries, or 29% of the total list. The largest countries to fall into this cluster include China, Bangladesh and the Russian Federation. Many of these countries have already signalled a commitment to responsibility through signing and ratifying international treaties, and other policy drivers, but are struggling to implement the basics, like worker health and safety and enforcement of labour laws. Civil society is not developed enough to monitor corporate behaviour or support improved business practices through engagement and partnerships.

**Figure 4: Identifying clusters of countries by Responsible Competitiveness performance**



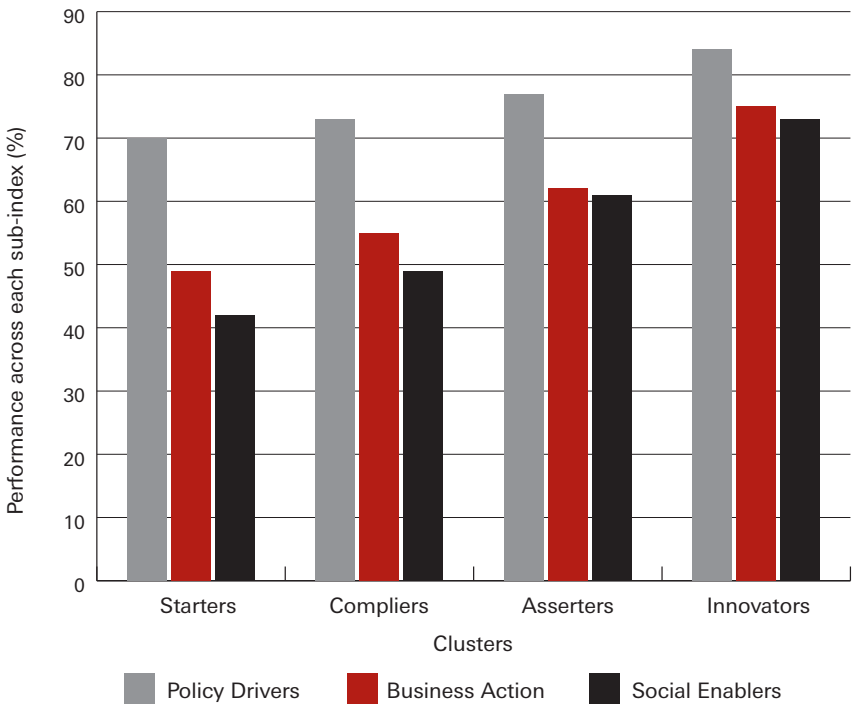
These countries are mostly constrained in their focus on low-value and often low-quality exports and find it difficult to move up the value-chain or develop global brands.

- ❖ *Compliers (cluster three):* India is unusual in being a low-income economy, while the other 32 Compliers are classified as middle-income countries. Other large countries in the Compliers cluster are Brazil, Turkey and Mexico. The Compliers account for as much as US\$1 trillion of global trade. Compliers focus on demonstrating progress on meeting international quality, labour and environmental standards, and so are building their capacity to capture market share in the global supply chains of more quality-conscious brands and consumers. Domestic civil society is not a significant driver for Compliers.

- 
- ❖ *Asserters (cluster two)*: this cluster is made up of 24 countries, just under a quarter of the total list. Countries asserting their responsibility credentials range from Spain and Italy to the United Arab Emirates. Asserters are countries moving from reactive to proactive strategy seizing opportunities in responsible competitiveness. Some of them, like Chile and South Africa, are actively engaged in developing and promoting international standards that will provide them with a competitive advantage. Some Asserters are building national brands associated with responsible business and government practices to attract foreign direct investment and promote a first generation of global product and corporate brands. For many Asserters, a vibrant civil society environment – challenging business but ready to collaborate to find solutions – is a critical element in advancing the broader national project.
  - ❖ *Innovators (cluster one)*: this cluster of highest scorers is made up of 20 countries and the list is dominated by Europe, followed by other OECD countries. Innovators are working to embed responsibility into the core of their domestic economies, stewarded by relatively well-enforced statutory regulation, well-designed corporate responsibility strategies, reinforced in most instances by strong civil society, media and consumers demanding responsible new products. Beyond this, knowledge-based innovation provides the leading edge of all of these economies. Sustained innovation in the context of scarce and highly mobile talent requires flexible working conditions, and dynamic, trusted public as well as private institutions. It also demands attention to detail, cascading responsibility into small and medium-sized enterprises (SMEs) and overseas investments as well as large domestic firms. For Innovators, responsibility competitiveness is no longer an add-on, but the heart of the economic model.

Within the four clusters, countries may be able to improve their performance along with the organic process of development. But the RCI shows that being a low scorer is not a ‘natural’ phenomenon to be ‘waited out’ until prosperity moves one up the scale. Quite the reverse, the RCI is a measure of the effectiveness of the combined forces of business strategies and practices and public policies in advancing a country’s economic position and role in global markets. It provides a lens for identifying the crucial priorities for each country, region, city or community to get right in order to advance from one cluster to the next higher up the value chain.

**Figure 5: The performance of each cluster across each sub-index**



For example SMEs, which comprise 99 percent of mainland Chinese businesses and 60 percent of mainland GDP, require a level playing field that only a transparent market can provide; few SMEs—whether in the United States or Zimbabwe—have the same access to political support as large corporations. Thus, mainland China’s recent strong efforts to promote wider penetration of market institutions, private property rights, and the rule of law are crucial for China to compete with its neighbours. The right mix of theory, government policy enforcement, and citizen responsibility can ensure that even the smallest scale of Chinese entrepreneurs has the opportunity to take advantage of responsible competitiveness.

*Responsible competitiveness, at both the firm level and for communities, cities, provinces and nations, is all about strategy and innovation.*

**Thematic Focus**

Complementing and going beyond the data, the report includes fifteen essays from experts exploring the potential for responsible competitiveness strategies to deliver economic success. For example:

- 
- ❖ Sir Nicholas Stern, until recently the UK Treasury's Chief Economist and author of the ground-breaking study of the economic consequences of climate change, along with Jonathan Lash, President of the World Resources Institute, highlight how aligning smart business strategies and public policies could give nations and businesses a first mover advantage in an emerging US\$500 billion a year market driving adjustments to climate change.
  - ❖ Ros Harvey from the International Labour Organisation provides evidence that improved labour standards drive up productivity and enhance nations' attractiveness for risk-free procurement by reputation-conscious global brands.
  - ❖ Peter Eigen, Chair of Transparency International's Advisory Council, and Anwar Ibrahim, formerly Malaysia's Deputy Prime Minister and now AccountAbility's Honorary President, drive home the argument that overcoming corruption must lie at the heart of any national strategy for achieving sustained competitiveness.

## **Towards a Low-Carbon Future**

Since publishing the original English language *State of Responsible Competitiveness* report in mid-2007, the cross-cutting issue of climate change has climbed up the policy and business agenda, with an increasing focus on its crucial links to the broader development agenda. Building on *The State of Responsible Competitiveness 2007's* qualitative outline view of the links between responsible competitiveness and climate change, AccountAbility has joined with the United Nations Environment Programme (UNEP) and other partners to focus the next phase of its work on responsible competitiveness on climate change. As Achim Steiner, Executive Director of UNEP commented at the outset of this work:

*"This is an exciting opportunity. It is clear that competitiveness is a key factor in developing a new post Kyoto agreement. The question is very topical and will require substantive research."*

A central feature of this work will be the development of a new index measuring the preparedness of nations to compete in a low carbon future, supported by an exercise that will bring together the evidence on economic opportunities for different nations and varied stages of development.

---

Does China's past success in eliminating chlorofluorocarbons put it in a good position to benefit from the low-carbon markets of the future? Could China's success with Clean Development Mechanisms be part of a larger picture of latent potential? Are Chinese consumer demands for clean and green products, the explosive growth of unregistered grassroots environmental groups and "MONGOs" (My Own NGO) and the incentives of sustainability standards in supply chains enough to catapult China into a more favourable responsible competitiveness category? The answer lies in how harmoniously Chinese and international leaders coordinate their responsibilities in line with market rewards.

### **How China can Take Leadership in Shaping Tomorrow's Markets**

China Securities Regulatory Commission (CSRC) chairman Shang Fulin's recent essay in the preface to the Shanghai Stock Exchange Research Centre's "Chinese Corporate Governance Report (2007): Stakeholders and CSR" exemplifies the kind of role government can take in encouraging business action.<sup>14</sup> Shang calls for companies to undertake increased stakeholder protection and engagement, and calls upon all listed companies to write sustainability reports.

Other policies, like embedding reduced energy use per unit of GDP in recent five year plans and restricting loans to high polluting companies, make China a pioneer in its cluster. The State-owned Assets Supervision and Administration Commission, in its 2008 Instructing Document, points out that corporate responsibility can improve the image of Chinese companies in international markets. No strategy for building responsible competitiveness can rely on business, social, or government action alone. Responsible competitiveness is not just a matter of being ethical in dealing with social and environmental issues. Gaining competitive advantage through responsibility requires smart strategies in practice. As Al Gore emphasises in his Foreword to the report:

*"A sustainable future means markets that reward long-term performance. It means seeing responsible business practice as the guide to the quality of the business and its management. It means public policies and citizen action that help businesses do the right thing".*

And such strategies vary between countries and over time. For example, Günter Verheugen, Vice-President of the European Commission in charge

---

of Enterprise and Industry, highlights in the report the role of responsible business practices in enhancing European competitiveness:

*“...the key word for competitiveness in today’s knowledge-based economy is innovation, and the best enterprises have realised that CSR and innovation are intimately linked”.*

Wang Zhile from the Ministry of Commerce’s Transnational Research Center goes far in his early promotion of “soft competitiveness” to underline the dynamics of responsible corporate action. Wang’s emphasis on accountability cuts to the heart of responsible competitiveness, focusing on economic (shareholder) accountability, social accountability, and environmental accountability.<sup>15</sup> China’s abrupt transition from planned economy era comprehensive company provision of social benefits (*gongsi ban shehui*) to strong marketization—stripping those benefits and absolving much of the company’s social contract—are now being harmonized by company interaction with a diverse array of stakeholders who can hold them accountable to Chinese social, environmental, economic, and political norms.

Collaborative approaches that bring together private and public actors to govern markets can be highly effective in achieving responsible competitiveness. These multi-stakeholder approaches can help businesses overcome collective action problems, avoid negative reactions from groups affected by organisational decisions, and identify material concerns and the metrics to support them.<sup>16</sup>

Former Vice Chairman of the Standing Committee of the Chinese National People’s Congress says,

*“The State of Responsible Competitiveness provides guidance for the progression of our sustainable future, and also via an evidence-based index offers comparative analysis of the current state of responsible competitiveness for a large group of countries. This innovative work provides new ways and inspiration for China to improve its competitiveness. In addition, this publication makes clear the relationship between country competitiveness and responsible corporate action. This publication makes an excellent reference for Chinese companies, the government, and groups working to implement corporate responsibility.”*

Responsible competitiveness will underpin any sustainable future, and China’s strategy for securing long-term competitiveness in the global

---

economy will be key to achieving such a future, for China and for the rest of the world. As Pascal Lamy, Director General of the World Trade Organisation, pinpoints in his opening comments in the report:

*“Responsible competitiveness...blends forward-looking corporate strategies, innovative public policies and engaged and vibrant civil societies. It is about creating a new generation of profitable products and business processes underpinned by rules that support societies’ broader social, environmental and economic aims”.*

Designing and implementing such strategies will require business leaders to rise to the challenge and associated opportunities. New knowledge and competencies are needed for the world’s business communities to become skilled in turning social and environmental costs into profitable products and processes. It has become a core business competency to be able to build partnerships involving public and private, commercial and non-profit organisations that are effective in creating new standards, networks of relationships and sources of innovation.

The Singaporean government, by setting up the International Organizations Programme Office, has translated a responsible competitiveness strategy into action by developing an international organisation cluster of corporations, educational institutions, international NGOs, and foundations that can help businesses become more responsible.

There is considerable opportunity for the most innovative businesses in joining with government and non-profit organisations to raise consciousness of Chinese consumers towards these issues. As elsewhere in the world, citizens will drive business’ responsible competitiveness strategies and practices by demanding improved standards from the businesses they buy from or work for. This will improve the effectiveness of Chinese legislation by creating in effect an army of ‘market-based inspectors’, at considerably reduced enforcement costs to the government. But as important is that it will improve the Chinese business community’s ability to compete globally higher up the value chain where premium products can capture higher prices. Strengthening China’s ‘social enablers’ in such ways will accelerate China’s shifting gear towards a higher value-added economy.

Internationally, China could influence the next generation of standards that will reshape global markets towards more responsible competitive-

---

ness practices. Its dominance of global supply chains across many sectors provides it with a unique window of opportunity to actively 'export' good practices, much as Europe has done in exporting its domestic standards through its ability to provide access to the region's wealthy markets. China is already engaging in this agenda, for example, through its involvement in ISO's work on ISO 26000 Social Responsibility.<sup>17</sup>

Domestically, China has gained great experience with the China Social Compliance 9000 for the Textile and Apparel Industry (CSC9000T), although this and other nationally branded standards often remain confusing to international markets focusing on standard harmonisation. China's economy would now benefit, and create broader international benefits, by deepening its engagement in 'soft regulatory' standards initiatives related to trade and investment, such as the Equator Principles and Carbon Principles (on project finance), the Extractive Industries Transparency Initiative, and MFA Forum (on responsible textiles).

Such soft regulation based on 'collaborative standards initiatives' (CSIs), when implemented properly, can have many benefits. One example is the Chinese Academy of Forestry and State Forestry Administration's leadership of a multi-stakeholder initiative to draft China's Forest Stewardship Council national guidelines. By ensuring timber products are made from responsibly managed forest sources, this label establishes automatic product branding. Companies with products that carry such international assurance labels can then concentrate on unique product characteristics. Media and civil society then have a clear understanding of companies' stated goals and can help enforce their responsible behaviour.

These collaborative standards provide a platform to educate foreign investors, governments, and citizen-consumers about how SOEs and Chinese companies operate and can facilitate firms' smooth transnational expansion by assuring international groups that China is an equal partner fully engaged in the global dialogue. Participation in such standards initiatives will enable China to be at the heart of the design of the next generation of rules for the global economy, some of which will involve 'soft regulation' alongside the rule of law.

---

Responsible competitiveness, in short, spells out the economic case for advancing responsible business practices at the heart of a nation's economic development strategy. China in the near term has the opportunity to embrace responsible competitiveness at the national, provincial, city, and regional levels. Government can play the lead role in coordinating multi-stakeholder initiatives and policy. Chinese civil society can help businesses achieve sustainable development objectives, develop according to the rule of law, and create better responsibility practices. Chinese companies can coordinate and collaborate with civil society and government stakeholders to innovate and establish business-aligned responsibility practices.

In the mid to long term, Chinese leadership on the stewardship of responsible competitiveness relies on the leadership of government, business, and other stakeholders, both domestically and internationally. China's commitment to advancing this dialogue will determine the degree to which responsible competitiveness becomes part of China's key competitiveness strategy. AccountAbility's *The State of Responsible Competitiveness*, translated and published in China by AccountAbility and the WTO Tribune, positions China's current policies in the context of global progress on responsible business practices, and identifies China's unique opportunity to take global leadership in advancing this agenda.

# The Responsible Competitiveness Index

---

By **Paul Begley, Alex MacGillivray** and **Joshua Wickerham**

Responsible competitiveness means shaping markets that systematically and comprehensively reward business for strategies and practices that take explicit account of social, economic and environmental impacts. Making sustainable development count as a way to become more globally competitive and move up the value chain in tomorrow's economy requires leaders from government, business, and civil society to build public policies, strengthen social conditions and support responsible markets. AccountAbility's challenge is devising robust and manageable ways to analyse such an overarching idea. How could this data be made accessible for organisational decision makers, policy makers and other actors so these ideas can be translated into action?

The Responsible Competitiveness Index (RCI) has been devised by AccountAbility in association with Brazilian business school Fundação Dom Cabral, advised by a large number of competitiveness experts from around the world. The RCI is a robust analysis to explore and evaluate how country-level economies are performing in their efforts to promote responsible business practices. The 2007 index demonstrates performance in 108 economies covering over 96% of global GDP, with geographical representation on all five continents. This is the world's largest systematic assessment of responsible business practice to date.

AccountAbility has steadily built its expertise in measuring responsible competitiveness, with its pilot index published in 2003. Simon Zadek and Alex MacGillivray provide a history and international context of the RCI in essay one, "China's Opportunity to Embrace Responsible Competitiveness." This essay explains the architecture of the index, details the indicators used, explains the approach towards aggregating the indicators, identifies some of the weaknesses of the approach, and identifies our plans to continue to improve the index in the future.

## **Building the RCI**

The RCI uses 21 indicators from 13 independent sources. Each indicator explores which countries are building competitiveness strategies to take explicit account of their social and environmental impact.

---

There are over 600 international datasets of possible relevance to responsible competitiveness, ranging from the energy used per unit of GDP to density of business networks to the difference between companies' highest and lower paid workers. We use six criteria for selection in the RCI. Indicators have to be:

- ❖ Relevant to commonly-accepted models of responsible business practice;
- ❖ Explainable through established theory or empirical evidence. For example, countries that can maximize human capital endowments through providing better opportunities for women, disabled persons, and minority groups are likely to be more competitive;
- ❖ Independent yet complementary of one another. There are numerous meta-studies, yet many turn out to include—at one level or another—a benchmark piece of work, such as Transparency International's Corruption Perception Index;
- ❖ Publicly available from credible sources, using strong and transparent methodologies. Hundreds of studies seek to test, demonstrate or refute the argument that responsible business practices have strategic economic benefits, but often the methodology used to present data is unclear;
- ❖ Indicators must be broad in geographic scope and regularly produced. Many promising datasets have a small country coverage or are one-off studies.

Indicators should be responsive and capture real country performance. Areas such as carbon emissions from industry have become topics of policy and business action over recent years, underlining the importance of identifying the most recent available data.

After careful consideration, we identified 21 indicators that met these criteria. The indicators are from a wide range of sources and combine hard statistics on actual performance with soft surveys of public or expert opinion. These indicators are shown in Table 1.

**Table 1: Detail of indicators in the Responsible Competitiveness Index 2007**

*Policy Drivers:*

- ❖ *Signing and Ratification of Environmental Treaties* refers to four key international treaties: the United Nations Framework Convention on Climate Change in New York in 1992, the Convention on Biological Diversity in Rio de Janeiro in 1992, the Kyoto Protocol to the United Nations Framework Convention on Climate Change in Kyoto in 1997, and the Cartagena Protocol on Biosafety signed in Cartagena in 2000;
- ❖ *Ratification of Basic Workers Conventions* covers eight treaties: Freedom of association and collective bargaining (conventions 87, 98); Elimination of forced and compulsory labour (conventions 29, 105); Elimination of discrimination in respect of employment and occupation (conventions 100, 111); Abolition of child labour (conventions 138, 182);
- ❖ *Rigidity of Employment Index*, which encompasses three sub-indexes: a difficulty of hiring index, a rigidity of hours index and a difficulty of firing index;
- ❖ *Stringency of Environmental Protection*;
- ❖ *Carbon Dioxide Emissions per US\$ billion Gross National Income*;
- ❖ *Private Sector Employment of Women*;
- ❖ *Responsible Tax Environment* which combines the number of tax payments each year and the time needed by a business to comply.

---

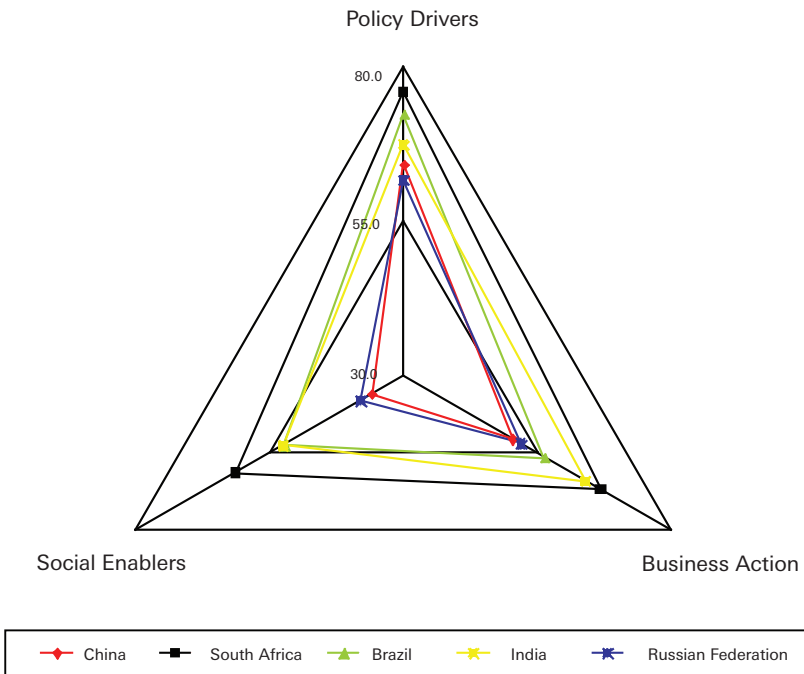
### *Business Action*

- ❖ *Efficacy of Corporate Boards;*
- ❖ *Ethical Behaviour of Firms;*
- ❖ *Wage Equality for Similar Work;*
- ❖ *Strength of Auditing and Accounting Standards;*
- ❖ *Extent of Staff Training;*
- ❖ *Ratio of ISO 14001 to ISO 9001 certification: the uptake of environmental management systems compared to other ISO standards;*
- ❖ *Occupational Fatalities.*

### *Social Enablers*

- ❖ *Corruption Perception Index;*
- ❖ *The Degree of Customer Orientation;*
- ❖ *Freedom of the Press;*
- ❖ *Transparency of Transactions;*
- ❖ *NGO Membership;*
- ❖ *Civil Liberties: the existence of basic political rights and civil liberties, gauged by relevant portions of the Universal Declaration of Human Rights;*
- ❖ *Impact of Clean Air and Water on Business Operations.*

## Performance of the BRICS across the three domains

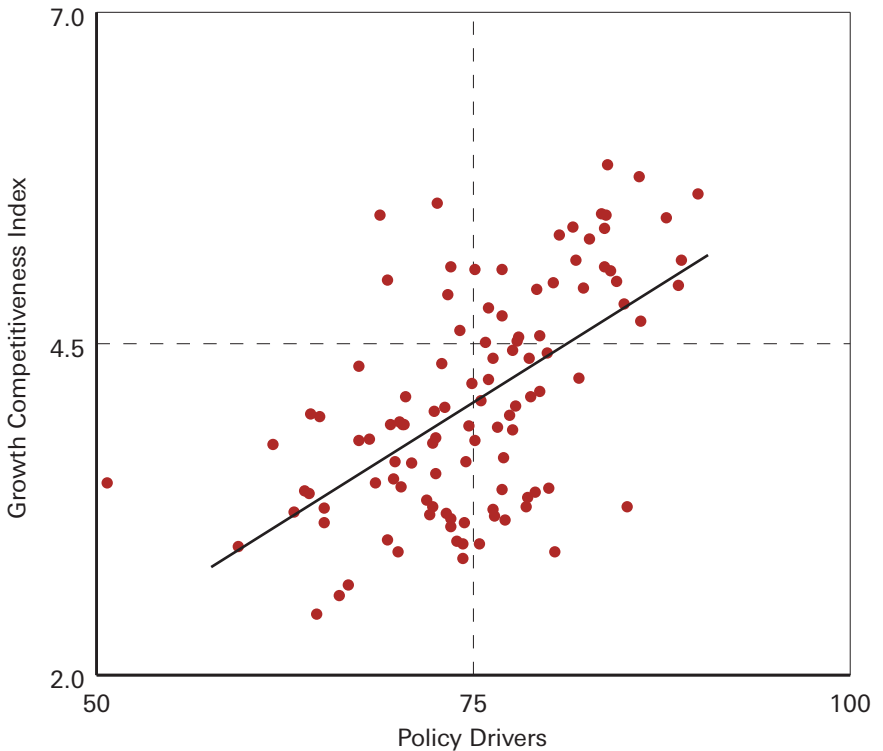


These indicators taken together provide information for 108 countries. Arguably, an index with 21 indicators is a minimalist approach to responsible competitiveness, compared to exercises like the World Bank's *Doing Business* database. There are some areas where there is currently no reliable data produced for enough countries – such as the prevalence of infringements of labour standards, or the concentration of the economy into pollution-intensive export sectors. Wherever possible, we have examined the fit of data with other variables only available as one-off studies or for small country samples. This remains the subject of future studies.

These indicators are then arranged into three sub-indexes, each with seven indicators.

*Policy Drivers* include indicators demonstrating government commitment, such as the signing and ratification of international treaties, the design of a responsible tax system, the implementation of stringent environmental regulations and national programmes to reduce gender inequality. Effective policy drivers require the coordination of many government departments and agencies, and (in large countries like China particularly),

**Figure 1: Policy Drivers and Growth Competitiveness Index**

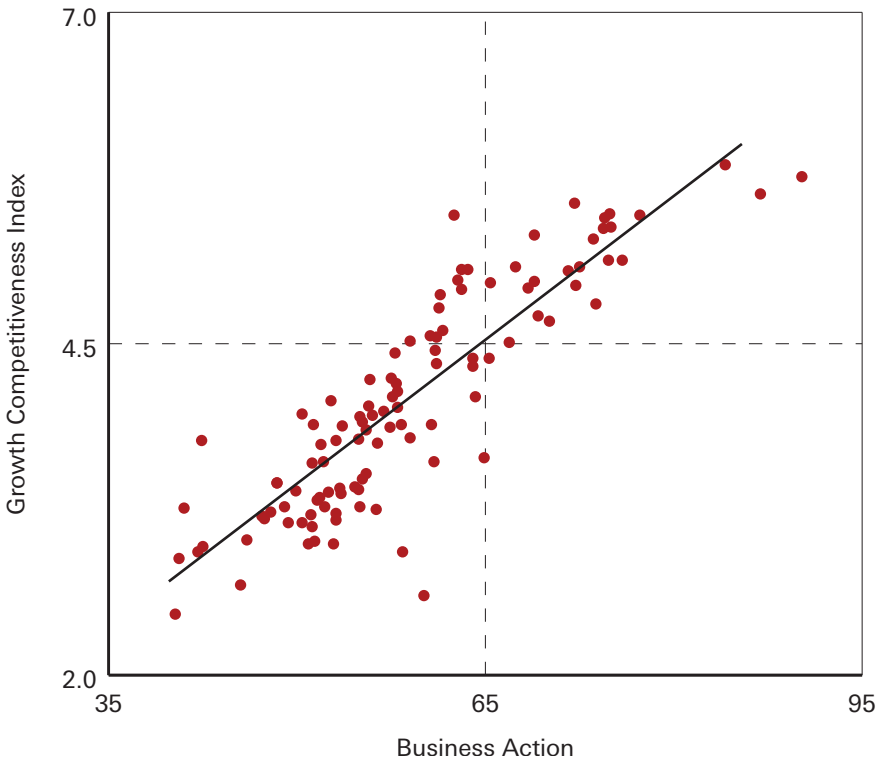


Source: Growth Competitiveness Index from the World Economic Forum 06/07

effective mechanisms for coordinating central, regional and local policies. Figure 1 demonstrates a positive correlation between policy drivers and the World Economic Forum’s Growth Competitiveness Index (GCI) ( $r^2=0.34$ ) for 108 countries. The correlation would be stronger if competitiveness indices took more account of gender equality as a driver of competitiveness. There are strong economic benefits from closing the gender gap, as Laura Tyson argues in her essay below. China performs well on the international measure of female participation in the labour force as a percentage of male participation. On this measure, in 2005 China outranked the United States and the UK, according to the International Labour Organization.

*Business Action:* at the firm level, responsible management systems will include effective action on issues like staff training, occupational health and safety and reducing environmental impact. Thousands of firms, including small and medium sized enterprises (SMEs), have now under-

**Figure 2: Business Action and Growth Competitiveness Index 06/07**

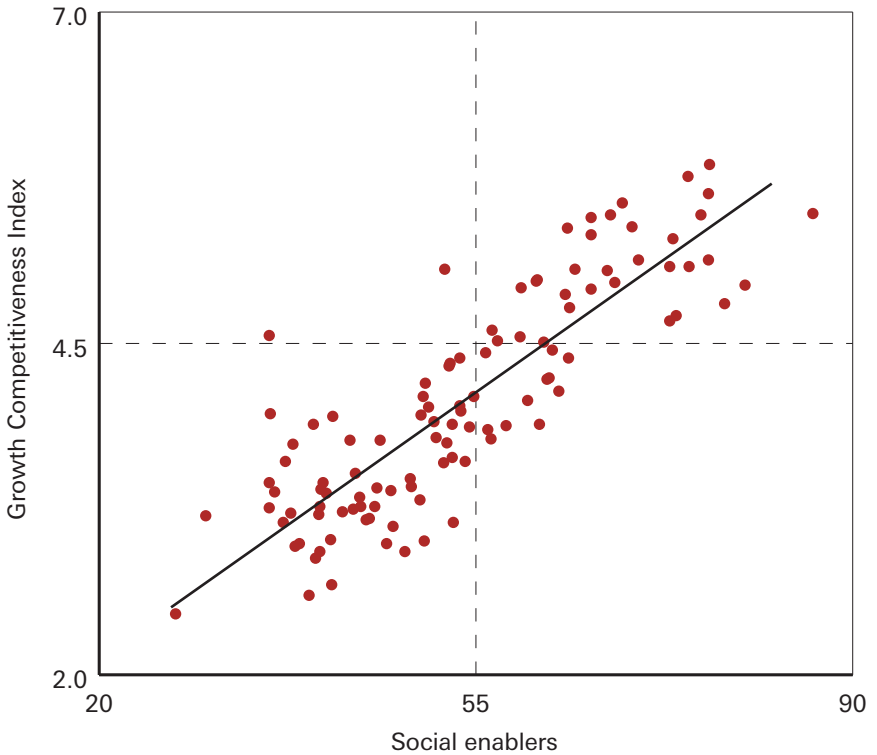


Source: Growth Competitiveness Index, World Economic Forum 06/07

taken voluntary corporate responsibility initiatives, as evidenced by the uptake of International Standard Organisation standards and participation in the UN Global Compact. Thousands of Chinese firms have moved rapidly to take up the environmental management system ISO14000. In many countries, firms also have discretion about how to implement regulations most effectively. Chinese executives report that companies could invest considerably more to attract, train and retain employees. China performs less strongly than Brazil or India on this indicator. Elements of responsible business practice are increasingly being recognized as drivers of competitiveness and are being incorporated into leading indices like the Growth Competitiveness Index. Figure 2 shows that the relationship between our basket of business actions and WEF's GCI is fairly strong ( $r^2=0.77$ ).

*Social Enablers:* As businesses move beyond the implementation of basic responsibility management systems and as governments coordinate their

**Figure 3: Social enablers and Growth Competitiveness Index 06/07**



Source: Growth Competitiveness Index, World Economic Forum 06/07

policies to support the private sector, they run into territory where the first mover advantage disappears. A strong social fabric then becomes necessary to support further progress towards responsible competitiveness: including a culture of transparency, a press that is able to critically examine business action and support government environmental and social policies, an intolerance of corruption and a well-developed civil society that engages with government and business to help develop sustainable and competitive policies and assurance systems. Civil society organisations encourage compliance with existing laws and regulations and provide a feedback mechanism for innovation and collaboration with business. Consumers too, are a key enabler of competitiveness because they ensure that companies respond to changing needs, and develop new products and services. Globally, customers are now beginning to demand sustainable innovations, and Chinese consumers are no exception. Figure 3 shows the importance of the basket of social enablers to overall competitiveness ( $r^2=0.73$ ).

---

## Calculating the RCI

The 21 indicators are clustered into the three sub-indexes of policy drivers, business action and social enablers based on regression analysis and theoretical fit. These three factors form a simple conceptual model for building responsible competitiveness.

The RCI uses a systematic methodology that is in line with other composite competitiveness studies and their statistical techniques. After identifying each indicator, we calculated each country's performance to a percentage based on the best score possible for each indicator. The seven indicators in each sub-index are equally weighted and averaged to provide a percentage score for each sub-index.

Each country in the RCI is then assigned a level of development based on data from the World Bank using the Atlas method, with countries categorised as: low income (\$875 or less GNI per capita), medium income (\$876-\$10,725 GNI per capita) or high income (\$10,726 or more GNI per capita). This classification can be found in the Annex. Extensive feedback from previous versions of the RCI indicates that development level is an important variable in understanding the different priorities in building a responsible competitiveness strategy in Beijing or Berlin. Each development stage suggests a different weighting for each sub-index, a methodology in keeping with the Growth Competitiveness Index and other multi-country indices.

The RCI score and ranking is calculated through a multi-linear regression model, incorporating the level of development (as 0, 5.6, or 9.2 as appropriate), using the following equation:

$$\text{Responsible Competitiveness Index} = \text{level of development} + (0.16 * \text{Policy Drivers}) + (0.46 * \text{Business Action}) + (0.23 * \text{Social Enabling Context})$$

The assumptions and validity of this model have been checked using a range of standard statistical techniques and the model appears reliable and robust. Finally, we apply clustering analysis to create four clusters, and these results are presented in the previous chapter. Further details of this index are available at [www.accountability21.net](http://www.accountability21.net).

## Improving the Responsible Competitiveness Index

The RCI analyses the best data available using reliable and tried methodologies. At the business level, more and more data are becoming available, for example through the Doing Business database, the global Accountability Rating and the Carbon Disclosure Project. Resources are also being directed towards measuring the cumulative impact of responsible business practices at the national level. Of existing national-level studies, many have a thematic focus such as corruption or child labour, are pilot exercises or have limited resources and a small country sample. While institutions such as the World Bank and the World Economic Forum are making a wide range of high quality indicators available, their coverage of responsibility issues remains limited and these organisations are the exception rather than the rule. Data in many crucial areas remains absent or unacceptably poor.

Even with the best available data, some caveats are needed:

- ❖ There are time lags in some data. Some of the metrics presented in authoritative publications present data that trails by two or three years. One example is carbon dioxide emissions, where the most geographically wide-ranging dataset is from 2004;
- ❖ Some indicators can disadvantage countries with a large SME or informal sector as they count actions more likely among larger enterprises. When looking at the uptake of ISO 14001 Environmental Management Systems, for example, is it important to denominate this data to take account of the ability of countries like China and India to implement ISO certifications in general. It is only when a dense network of trainers and certifiers develops in each country that costs come down and medium sized enterprises are able to participate in such systems;
- ❖ Many of the most recent and largest datasets are based on expert opinion surveys. Critics question the reliability and comparability of questionnaires completed by samples of business executives, who can be expected to provide more reliable answers on some questions than the general public, while in other areas their impartiality may be questioned;<sup>18</sup>

- 
- ❖ Even the most credible and legitimate sources may simply fail to provide accurate data. For example, the Institute of NGO Studies at Tsinghua University claims China may have up to one million civil society organisations, yet international statistics suggest a rather low density of NGOs. Another case in point is the data on occupational accidents. Worldwide, the proportion of accidents reported to the International Labour Organisation is estimated to be only 4 per cent of the real number of accidents.<sup>19</sup>

### **Responsible Competitiveness: the agenda for 2008/2009**

We have identified four key areas where concerted action can significantly improve our understanding of responsible competitiveness. We need to firstly expand the geographical range of data gathering. Throughout this project, we have unearthed fascinating datasets such as “firms expected to give gifts at meetings with the labour inspector” or “the percentage of firms in business networks”, and even an index that demonstrates how willing governments are to open up their transactions to citizens, businesses and civil society. In each case, the number of countries is far too limited to assimilate into our index or even to allow for useful cross-comparison with our sample of 108 countries. Moreover, our coverage of 108 countries could and should be expanded, notably in Africa and the Middle East. We are taking steps in this direction by building relationships with data gatherers and with competitiveness authorities and CSR experts in countries such as Saudi Arabia.

Secondly, we need a major improvement in the timeliness of key data sets to enhance understanding and allow for an annual benchmarking of responsible competitiveness. In part, this is a capacity issue: databases like the CIRI Human Rights could reduce lag time with increased funds. But it is also an issue of institutional commitment. More accurate and timely carbon dioxide emissions measurements are essential for building better regional, national, and international policies around climate change, which will in turn help businesses identify responsible competitiveness opportunities in reducing carbon emissions. On key issues like labour standards or pollution intensity, the responsible international bodies need to invest more in data acquisition. Fortunately, as these issues rise up the global policy agenda, timeliness of data does improve, though some time lag is inevitable in international datasets.

---

Thirdly, there is now a critical mass of organizations worldwide ready to focus on some of the key issues in responsible competitiveness. We should develop new indicators, for example on the strength of collaborative initiatives, the levels of national participation in voluntary sustainability standards and progress in removing gender and ethnic inequalities in the workplace. We can also imagine a method for anonymously pooling the results of thousands of factory inspections by dozens of inspection bodies worldwide. More attention needs to be paid to the responsible competitiveness challenges and opportunities associated with climate change, such as renewable energy, energy efficiency improvements, and low carbon innovation. Using global information communication technology, these and other datasets on the progress towards responsible competitiveness can now easily and affordably be generated, and our research team is committed to helping that happen.

Finally, our data does not yet resolve the issues of causality between responsibility and competitiveness. The ongoing goal is to better understand the mechanisms by which responsibility strategies and economic performance work together. How much relies on innovative market and political leadership? How much depends on collaborative approaches to reshaping markets? To answer these questions, the RCI exercise needs to be repeated annually to build up a consistent time series. AccountAbility is committed to repeating the global RCI in 2008 and 2009 to enable this.

Work is also needed to study responsible competitiveness policies, actions and enablers at the level of cities, regions and sectors worldwide and within large economies like China and India. In the following section, leading experts address exactly these questions, giving practical examples of strategic efforts to make sustainable development count in tomorrow's markets. It is our hope that Chinese researchers and CSR experts will continue to make important contributions to the ongoing development of the State of Responsible Competitiveness reports in future.

With time, we expect that the scope and quality of data acquisition, along with the increase in countries, cities and regions implementing responsible competitiveness strategies will help us refine the Responsible Competitiveness Index. For example, Chinese provincial and regional leaders working with the German Technical Cooperation (GTZ) and AccountAbility are discussing the metrics and strategies of Chinese provincial and city-level responsible competitiveness. This work could build on the pioneering work on city competitiveness at the Institute of

---

Finance and Trade Economics at the Chinese Academy of Social Sciences<sup>20</sup> and understand how China can build responsible competitiveness. AccountAbility is also exploring a methodology working at state level in India with partners including the Confederation of Indian Industry. This could build on work in the UK's Northwest to build a regional responsible competitiveness strategy. As noted above, Saudi Arabia's General Investment Authority, with AccountAbility and Harvard University's CSR Initiative, will work to create a version of the RCI for Saudi Arabia and its peer countries.

It is our hope that further index work of this sort, in China and in the greater China circle of economies, will further clarify the true potential and impacts of responsible competitiveness. Nations and regions are realising that they can build strategies which create value and meet the broader aims of society and the environment. The responsible competitiveness index is a systematic guide for policy-makers to understand how they can build success in today's business climate. AccountAbility looks forward to working with Chinese colleagues on this global vision.

# Enhancing Enterprise Responsible Competitiveness: Preparing for a Responsibly Competitive Era

---

By **Yin Gefei**

Corporate Social Responsibility is one of the new post-WTO entry challenges facing China. CSR is a formula for transforming international competitiveness. “Low price and high quality” will no longer be the only binding laws. A responsible competitiveness era is quietly arriving. Only with this new comprehensive model of taking precautions, improving responsible competitiveness, and realizing sustainable business practices can Chinese corporations achieve an unbeatable position.

## **I. Corporate Social Responsibility – Corporate Profit Mechanisms are Transforming**

In the wake of CSR’s continuous deepening and development, changes in people’s and consumers’ value systems, the recognition of a sustainable development path, embedding and championing the big three areas of consumer rights, labour rights, environmental rights, western society has achieved a cycle that links a series of extensive, thorough, and lasting activities. This includes linking responsible social behaviour, consumer activities, labour movements, the environment, health and safety, gender equality, socially responsible investment (SRI) activity, anti-corruption and sustainable development. Within this, by leveraging investment activities and considering external factors, these consumer activities and SRI groups are exerting life or death pressure on the fate of enterprises.<sup>21</sup>

*Responsible consumers:* More and more consumers pay ever more attention to whether the production of the products they purchase conform to basic human and environmental standards. They make “refusing to purchase” a means to compel corporations to listen carefully to them in the marketplace. This is especially true with multinational corporations (MNCs).

*Responsible Investors:* Mainly through “moral investment” and “environmental investment,” responsible investors influence corporations to pay attention to and improve labour conditions and environmental protection. These investors organise and apply pressure directly to companies they feel fail to observe business ethics. For example, in 1999, because their supply chain measures did not adequately meet international labour standards, the world’s biggest retailer Wal-Mart, was eliminated from the Domini 400 (DS400) Social Index<sup>22</sup>, which is modeled on the S&P 500 index. More and more MNC shareholders require management to implement responsible behaviour standards.

---

Companies that deviate from these moral requirements are being spurned by the public, and either lose market share or lose capital market financing. In short, profit making companies are already moving away from their former dependence on simple market competition to become enterprises that consider society, the public, and other stakeholders as prerequisites. If corporations disregard public welfare, they can find themselves in a losing position, even with current investments. Meanwhile, corporations that implement stakeholder engagement mechanisms are experiencing transformation.

## **II. Corporate Social Responsibility – The Quietly Approaching Era of Responsible Competitiveness<sup>23</sup>**

In traditional textbooks, corporations are society's basic economic organisers and their function is to produce products and services while bringing the largest possible profits for their shareholders. Companies understand their basic economic responsibility in the classic one-way management paradigm based on the cycle of investment – production – distribution – profit making. In the wake of greater and greater influence on businesses from stakeholders concerned about multiple environmental and social issues, corporate obligations are turning from the customary single economic responsibility (toward stakeholders) and assuming a corresponding multidimensional social responsibility. This change is already being embedded in corporate operational thinking and operational management.

### **A. Simple Market-Oriented Competitiveness<sup>24</sup>**

In this era, corporate operational goals are aimed at being responsible to shareholders, and take making the greatest shareholder profits as the main aim. External importance is placed directly in customer products and services. Management's goal is to create quality and inexpensive products according to market competition and demand. Management achievement is based on product quality improvement systems, highlighted by the ISO9000 quality management system. Achieving ISO9000 certification is a basic requirement for gaining consumer and customer trust. This era of company is shareholder-focused.

<b>Competitive Era</b>	Simple Market-oriented Competitiveness	Environmentally-oriented Competitiveness	CSR-oriented Competitiveness
<b>Operational objective</b>	Responsible to shareholders	Responsible to shareholders and the environment	Responsible to shareholders and stakeholders
<b>Competitiveness Principles</b>	Create low price and high quality products for customers	Create low cost and high quality products while being environmentally responsible	Create low price and high quality products while being responsible to stakeholders
<b>Management objectives</b>	Products	Products + environment	Products + environment + people
<b>Management goals</b>	Improving quality	Improving quality and cleaning the environment	Improving quality + cleaning the environment + caring for people
<b>Management systems</b>	ISO9000 (published in 1987)	ISO9000+ ISO14000 (published in 1997)	ISO9000+ ISO14000+ ISO26000 (expected in 2009) a comprehensive management system
<b>Operational concept</b>	Shareholder company	Environmentally responsible shareholder company	Stakeholder-engaged company

## B. Environmentally-Oriented Competitiveness

In this era, environmental factors start to influence market competition. One aspect is that environmental law determines which companies enter the marketplace by legislating that unsuitable products cannot be sold. Another aspect is that companies must strive to innovate technologically; reduce resource use, pollution, waste generation and energy consumption; develop more environmentally friendly products; improve environmental competitiveness; develop an environmental reputation; and strengthen their market competitiveness. Externally, other than paying attention to customer requirements, they must also consider environ-

---

mental requirements. In this competitive market, companies strive to carve out market share by promoting environmentally friendly products. In addition to management and quality requirements, companies must use comprehensive environmental management systems like ISO14000, and in this way can easily achieve client and consumer recognition and effectively avoid legal environmental risks and complaints.

### **C. CSR-Oriented Competitiveness**

This era not only requires attention to the interests and development of personnel, but also requires that companies, like in the initial stages, pay equal attention to product and service quality and the environment. It also requires that companies implement social responsibility systems, and ensure worker's legal rights. In addition to obtaining ISO9000 and ISO140000 certification, they must also assure society through trustworthy certification like the SA8000 and through public sustainability reports.

Moreover, in this era, responsible consumers, responsible investors and the environment lead to an even higher requirement. Earlier, value emerged in winning over organized consumers and investors. Environmental criteria brought forth even higher requirements, and not just through the ISO14000 environmental management system. This means companies are not just responsible their immediate environmental impacts. For example, in 2005, the European Union's Waste Electrical and Electronic Equipment (WEEE) Regulations made companies responsible for the recycling of household electrical appliances. Not only do companies learn to adhere to environmental requirements, but also brings about higher standards of awareness for companies to do things on their own initiative. For example, recently, Beijing's citizen stakeholders, government and environmental groups have created emissions standards that surpass even Europe IV standards.

In truth, this era of environmentally-oriented competitiveness is also undergoing changes. Market demands bring forth responsible consumers who want social value and through the form of non government organisations form a strong force for influencing the market. The sources of corporate investment also demand added value. At a basic level, in quality control and environmental management, corporate social responsibility systems again present clear requirements and society demands comprehensive responsibility. consumers and investors seek not only companies

---

with responsibility toward investors, customers and the environment; they also seek companies with a value orientation that is responsible for workers, communities, and their supply chains. Corporations enter an era of comprehensive responsibility to all stakeholders.

### **III. Toward Responsible Competitiveness**

#### **A. Enterprise Responsible Competitiveness**

In December of 2002, in the Harvard Business Review, Michael Porter and Mark Kramer, published in *The Competitive Advantage of Corporate Philanthropy* that “Corporations can use their charitable efforts to improve their competitive context—the quality of the business environment in the location or locations where they operate”.<sup>25</sup> This implies that corporations donating money for charitable activities should also consider the influence this has on their competitiveness. Only in this way can companies exist on the market for the long term, and only then can they continue to carry out more social responsibility. To become a truly responsibly competitive company, corporations must sufficiently consider their full social impact during the decision making process, and seek balance in the relationship between profit seeking and the full range of stakeholder groups. Every corporation must provide specific products and services and professionally allocate resources. When corporations’ advantages in a field are put toward resolving specific social, environmental, and labour issues, and when firms’ economic efficiency increases in pace, a firm’s market competition grows as well. That is how firms become more responsibly competitive.

#### **B. MNCs’ Paths to Responsible Competitiveness**

The development of corporate social responsibility in developed countries like North American and European started with managing labour issues and environmental impacts. This gave way to explicit CSR strategies. The most important concern became bringing about approaches, laws, and tools to explore the question of CSR. Namely, how to blend, mainstream and operationalise social and environmental concerns, and meld these into corporate strategy, organisational structures, daily operations, and at the same time provide economic, social, and environmental benefits. This goal is to gain competitive advantage via acting responsibly. In developed countries, a great deal of MNCs have specific skills, technologies, innovative abilities, operational advantages, and social capital to use toward

---

solving social and environmental problems. They resolve certain social and environmental problems, and at the same time create and increase corporate reputation, lower costs, or improve the competitive environment, accordingly increasing their company's competitiveness.

### **C. Improving the Responsible Competitiveness Path of Chinese Enterprises**

Economic globalisation's dual character in China over the most recent two decades of market economy reforms and China's participation in international economic circles offers similar prospects for responsible competitiveness. China's economy over the last more than two decades has achieved great success all over the world, but China's economic development equally brings imbalanced issues such as a deteriorating ecosystem. Chinese enterprises, especially leading companies, should emulate developed MNCs by taking the lead with comprehensive CSR and contribute to the sustainable development of the Chinese economy.

Firstly, firms should undertake corporate social responsibility and strive to be exemplary corporate citizens.

More than 70 Chinese companies, including State Grid, China National Petroleum Company, Bao Steel, and Haier, have become signatories to the United Nations Global Compact. As one step toward becoming world-class companies, they are working to implement the UNGC responsibilities and comprehensively establish comprehensive responsibility management systems according to the UNGC's four areas and ten principles. This is an important way of blending these companies' strengths and the development of China's harmonious society to support disadvantaged groups, reduce energy consumption, increase respect and support workers' and customers' legal rights, and account for social and environment influences. Through continuous efforts, companies can at the same time create sustainable profits and realistically cultivate good relations with stakeholder groups.

---

Secondly, companies should actively pursue supply chain competitiveness to increase responsible competitiveness.

Within the WTO framework, developed country members continuously strive to come together under unified, standardised labour and trade rules, but because of developing country opposition, this has not yet happened. Still, through various channels, developed country interest groups, especially through supply chain standards, bring their requirements to industries in developing countries. This also highlights the problem of different approaches to CSR assurance and authentication. One could say the relationship between labour standards and trade restrictions has already substantially influenced developing countries, and these could easily become technical barriers to trade. But corporate social responsibility is a strong trend that cannot be reversed. Export-oriented Chinese companies should take full advantage of the supply chain strengths of existing relationships, rapidly familiarize themselves with the most recent management systems, establish management systems that fit the circumstances, and enlarge the international market to realistically improve responsible competitiveness.

Thirdly, companies should seek the point where their professional strengths and the resolution of social problems intersect, and realistically cultivate responsible competitiveness.

From Chinese companies' perspectives, carrying out CSR is a long-term course that requires exploration and great efforts. Firstly, Chinese companies must analyse their stakeholders and identify the most important groups and the areas of insufficient engagement; using their specialised expertise and resources, they should develop appropriate plans to overcome these problems. Generally, they should surmount the problem at every point, from environmental protection, customer and consumer interest safeguards, supply chain management, and stakeholder engagement to progressively foster awareness of responsible competitiveness and take advantage of responsible competitiveness itself.

# Raising District Responsible Competitiveness: The Pudong New District's New Development Model

---

By **Quanguo Wu**

The Pudong New District is a national-level development zone on the banks of Shanghai's Huangpu River. Being praised as a window and modern microcosm of reform and opening up, Pudong is currently experiencing all the innovation and reform that corporate responsibility brings. Through promoting the development of a corporate social responsibility (CSR) system, diligently working to make Pudong a modern representative area for civilized business, CSR, and sustainable development, and raising the district's responsible competitiveness, the Pudong New District is creating a new development model.

## **District Responsible Competitiveness: New Development Drivers in the Pudong New District**

In 1990, the Chinese government made the important decision to develop and open up Shanghai's Pudong New District (Pudong). The Shanghai municipal Party committee and Shanghai city government, according to the country's strategic plan, declared the development course of, "Open up Pudong, vigorously develop Shanghai, serve the entire country, face and cater to the world." After 18 years of reform and opening up, Pudong's fast economic growth continues, with total output value growing from six billion RMB in 1990 to 2.75 trillion RMB in 2007. The district now numbers 1.9 million inhabitants. A large number of excellent foreign invested firms have set up to make Pudong a base for multinationals, large state-owned enterprises, and research centers. By the end of 2006, investors from 98 countries and regions had invested in nearly 15,000 projects in the district, totaling US\$35.643 billion in contracted funds. There were over 10,000 domestic enterprises registered in the district, including 238 Fortune 500 companies, 99 multinational company headquarters, 119 research and development centers, 405 financial organisations, and 300 national or higher level Chinese companies. Development in the district has been focused on four key areas: Lujiazui Financial and Trade Zone, Waigaoqiao Free Trade Zone, Jinqiao Export Processing Zone and Zhangjiang High-Tech Park.

Long-term high-speed economic development is a base for establishing Pudong's participate in international competitiveness and cooperation. Pudong is entering a new historic era to build a competitive, harmonious, and international district, and this brings forth new requirements and goals. Pudong has been a coordinated development and reform pilot area,

---

and is the main site of the 2010 World Exposition, so Shanghai is facing new development opportunities. Shanghai needs to quickly transform its mode of economic development, push industrial restructuring and optimisation, and spur sustainable development.

Sustainable development has already become a matter of consensus for the international community. But how does one actually strengthen a country or region's sustainable development ability? Scanning the development of the world's various economies, combining the ideas of competitiveness and responsibility, responsible competitiveness has already achieved widespread recognition, and is gradually becoming a major trend. From research done by the famous international think tank AccountAbility on country and regional responsible competitiveness, the highest ranking countries, mostly European, are all actively implanting responsibility in the heart of their economies. For these leading countries, responsible competitiveness is not an add-on, but the nucleus of their economic model. A few countries and regions have already set a group of sound regional responsible competitiveness indices and guidelines, and measuring things related to workers, customers, suppliers, surrounding districts' social, environmental and economic achievements, like the UK's "Responsible Northwest" initiative.

Comparing district responsible competitiveness to previous purely economic competitiveness, responsible competitiveness means broader sustainable development. District responsible competitiveness gives prominence to the functions of three areas: policy environment, corporate social responsibility, and civil society groups and the combination of these aspects gives a district competitive advantage, namely raising a district's integrated competitive ability, including improving its natural environment, developing human resources, and strengthening economic development and social coordination. District responsible competitiveness improves and spurs development that maintains a balance between a district's economy, environment, and society.

Advancing district responsible competitiveness means governments need to provide favourable services that accord with international trends and needs, create a new kind of policy driving environment, and seek economic, environmental and socially coordinated development. It means government will, through force of public policy and "soft power" measures, support corporations exercising responsible corporate activity. It also means bringing about a new government service environment. These

---

measures include paying attention to environmental protection and ecological balance, reducing pollution, putting more emphasis on worker's basic rights, employment rigidity indexes, guaranteeing women's employment rates, and perfecting a responsible tax environment.

Promoting district responsible competitiveness means corporations adopt more responsible action guidelines and comprehensive responsibility management, and capture more sustainable development market opportunities. Corporations increasingly recognise the effectiveness of corporate boards, corporate ethics, pay attention to corporate culture and workplace diversity, and staff improvement and development, transparency and comprehensive responsible management systems.

Promoting district responsible competitiveness means paying more attention to the coordinated development of the district's economy, environment and society, and creating an atmosphere for corporations to become more socially responsible. Giving full play to various social forces and groups in advancing a district's responsible development includes the formation of responsible consumer groups, news media supervision, business groups and the special functions other civil society groups.

From Pudong's perspective, responsible competitiveness means developing the government's leading role, providing better government services, creating a better international business environment, contributing to Pudong's comprehensive reform; at the business level, advancing better corporate social responsibility coordinates business and district development; society helps create the right atmosphere for driving the implementation of corporate responsibility.

As one of China's pilot areas for reform and opening up, the "internationalizing Pudong" development goal requires Pudong not only make breakthroughs in economics, but at the same time requires Pudong from its special base in China to accord better with the newest international development trends—like implementing economic and social, ecologically harmonious development. Only in this way can Pudong establish an international image and improve international competitiveness. The Pudong government increasingly realises that policies favourable to attracting private investment can cancel the district's increasing costs of doing business. Pudong's distinct policy advantages are gradually weakening as well, so Pudong has urgently sought to find a new development model and transform its former mode of economic growth.

---

Namely, Pudong asks how economics, society and the environment can be tightly combined. In this, Pudong has found new development mechanisms for advancing comprehensive corporate social responsibility and improving district responsible competitiveness. In 2007, Pudong formally started work on a corporate social responsibility system, and started to use innovative mechanisms as the answer to this new round of economic opening and development.

### **District Responsible Competitiveness: a collective “four in one” push**

Pudong initiated a “four in one” system for government, corporate, intermediary groups, and society to advance corporate social responsibility. For corporations to assume the greatest social responsibility, the government has established effective, practical public policy, and has begun utilizing various driving forces like the media, social groups, and the public to promote and implement this strategy. This is Pudong’s attempt to innovate and advance responsible competitiveness.

Despite corporate social responsibility in China being a novelty, the Chinese government advocates the implementation of scientific development principles and sustainable development strategies. Corporate social responsibility is already increasingly being recognised by society. People hope and even demand that corporations earnestly implement social responsibility and do their part to create a harmonious society. Through the establishment of a comprehensive social responsibility system, Pudong in the same way hopes that district responsible competitiveness can advance the construction of a harmonious Pudong.

The Shanghai city government’s related departments have actively supported and brought forward many constructive opinions about Pudong’s work of promoting corporate social responsibility. Through surveying 600 businesses in the district, Pudong finds that 83% of corporations have a “fairly good recognition” of social responsibility, with foreign companies having a higher recognition than Chinese. Manufacturing industries are generally higher than others, large industries generally better than small. 92% have already brought all of their employees into a social security system. Six have founded labour union representation. But some companies lack the initiative to do CSR, and need to raise the level of awareness and engagement to take the next step to commit to corporate social responsibility. With this kind of background and requirements, the Pudong government has prepared and ensured that

---

the Pudong New Districts' "Government guidance, corporate consciousness, industry self-discipline, public supervision" four-in-one social responsibility system advances mechanisms to guide a comprehensive set of reform work to develop, strive to implement CSR, strengthen the district's overall competitiveness, and bring along all parts of the district's healthy and harmonious development.

Pudong's four-in-one social responsibility system provides a powerful guarantee through advancing mechanisms for improving Pudong's district responsible competitiveness. The core content, goals, and drive of this CSR advancement mechanism include wide participation of internal stakeholders from government, intermediary groups and the public, which gives divisions their duties and guidelines to do their best. It provides essential leadership, help, encouragement, and supervision to corporations.

**Government guidance:** brings into play government's leadership and drive to form new relationships with companies.

**Corporate Consciousness:** brings into play corporations' principle functions, implements companies' internal requirements, advances companies' soft power.

**Industry self-discipline:** brings into play industry associations and intermediary organisations' self-disciplinary functions, for example through established pacts, industry association regulations, etc.

**Social Oversight:** brings into play broad social participation to create an atmosphere for facilitating corporate social responsibility.

## Government lead

The Pudong government's important function is creating a good environment and guiding role for corporations to do social responsibility. The Pudong government considers CSR extremely important for the district's economy, environment and society. The Pudong government, through setting policy, establishing related government functions, and in the course of advancing CSR work, acts as a catalyst for advancing CSR.

---

The Pudong government has issued three guiding principles for its CSR work system in the form of three documents, namely: “Pudong New District’s Corporate Social Responsibility Leading Principles”, “Suggestions on Pudong New District’s Push to Implement CSR”, and “The Pudong New District’s three year CSR System Action Programme”. Of these, the first is a leading and demonstration document, defining which principles the district’s corporations should follow and uses authoritative Chinese and external standards and guidelines, like the OECD Guidelines for Multinational Enterprises, SA8000, AA1000, ISO26000. The most important two categories are restrictive legal standards and guidelines that advocate principles like worker rights and environmental protection to trust building and social harmony. There are over 60 guidelines in these four categories. Content covers Chinese legal and regulatory requirements around labour rights and interests, environmental protection, business ethics and other aspects. It also includes content from the UNGC, ILO, and biodiversity principles.

The second is an encouraging document to help companies implementing CSR receive more support and seize more market opportunities, increase corporate competitiveness and boost brand image. It clearly provides guidelines on implementing science and technology development funds, loans, assurance and other administrative support. It provides a policy environment that is good for leading and encouraging corporate social responsibility.

The third document puts forth a clear three-year plan from 2007-2009 with guiding thoughts, goals and work mechanisms, and important measures to promote corporate social responsibility.

At the same time, Pudong created a corporate social responsibility “connection conference”. Members are from nearly 20 sectors and corporate associations work synergistically on corporate social responsibility content for their specific sectors. This “connection conference” also established an office to handle related everyday tasks.

These three important documents reflect the Pudong government’s efforts to implement CSR. From another side, this also expresses the government’s role in improving the job market, natural environment, and operational environment. And the setup of the congress and office help government departments and organisations cooperate. They help guarantee the right policies get put in place.

---

## Putting companies first

The validity of these government policies requires that they are embodied in corporate social responsibility action. In Pudong's CSR system, enthusiastic corporate engagement, initiative, and consciousness need sufficient mobilisation. Whether put forward by the government or required by society, areas like responsibility toward rights and interests, the environment, trust, and harmony need to be carried through. These things also fundamentally advance Pudong's responsible competitiveness. In July of 2007, the Pudong government convened a large CSR meeting. BASF and 20 other large Chinese and foreign companies published a joint declaration on implementing CSR in Pudong to construct, hand in hand, harmonious companies, voluntary CSR implementation, and collaborative construction of a harmonious society.

The establishment of Pudong's CSR evaluation system is a practical tool for implementing CSR. Evaluation systems help corporations become more detailed and help address each area of responsibility with different domains. This evaluation system helps companies do their best to reflect the responsibilities that corporation must, should, or voluntarily undertake. Evaluating systems provide companies full, detailed, scientific, operable, measurable guidelines and an instruction manual for implementing CSR. Nine companies have already adopted and been analysed by this system. They constitute the first batch of companies to reach this level of CSR performance.

In evaluating applications to this programme, third party companies do spot checks and use public principles and precise criterion. Through evaluation, corporations can not only understand their own CSR implementation stage, but can also precisely advance and correct that implementation. The "action program" document puts forth a goal of having 300 Pudong companies issue CSR reports and 200 use this system within the next three years, indicating corporations need to adopt more concrete responsibility activities. This CSR system has already garnered wide attention from all levels of government, corporations, industry associations and social circles. Companies like Hitachi, Fujifilm, Delphi, Sony, and Leica have actively sought to participate in advancing CSR and carrying out this assessment work.

---

## Social Participation

Pudong's CSR tool system is a multiple stakeholder engagement mechanism that places equal emphasis on the positive roles of groups like guilds, industry associations, social groups, media, the public, and scientific research institutes. These groups work with the Pudong government and corporations to communicate and build mutual support for bringing about a CSR environment. Effective social participation can create advantageous social driving forces, help spur CSR adoption, and drive Pudong's responsible competitiveness.

The inauguration of Pudong's CSR network for implementing social participation creates a network platform that uses media, the public, and public opinion to supervise CSR progress and advance information sharing, leading and oversight. Pudong's CSR activities utilize Shanghai's media and public events. It uses public appraisals to select awards for CSR contribution and publicise them through the media. Prize winning companies will be featured as case studies to help create a positive environment for companies taking on social responsibility.

Pudong's foreign company associations and investment company associations will, under guidance from the government, collect model case studies on CSR, and design, edit and publish a book called "Pudong New District's CSR Model Case Studies". This book, when finished, can be used to advance CSR and also act as fodder for companies to study from each other. It has already collected about 60 case studies in three categories and 16 subcategories from different industries that deal with, among other things, reducing pollution, technological innovation and a harmonious society.

Research institutions are another stakeholder whose engagement cannot be ignored. "The Pudong New District CSR Leading Principle" was developed with Fudan University. Pudong also invited multinational research centers and specialists in the district to carry through related CSR courses, publicize the idea of CSR and raise consciousness of CSR.

District Responsible Competitiveness: Pudong's New Development Mode  
Pudong's future development context and the country's development strategy are impossible to separate, and directly tied to economic globalisation's sustainable development trends. China advocates carrying out scientific development principles, implementing sustainable development

---

strategies, and constructing a harmonious society. The essential point is to implement harmonious economic, environmental and social development, improve the country's overall competitive strength, and strengthen overall social welfare. Because of Pudong's special position in Shanghai and the country as a whole, Pudong should become a coordinated economic, environmental and social development test bed and pioneer.

At a basic level, Pudong's deepening and reviewing of global economic development chooses to advance the construction of the CSR system as a way to bring about the scientific development principles, drive district coordinated development breakthroughs and grasp responsible competitiveness as the mode for Pudong's development.

This kind of development pattern will bring many changes.

From a company perspective, it means companies will progressively upgrade and adopt new growth modes, and at the same time they make economic profits will think about the corresponding problems in the environment and society and use companies' professional advantages to assist in resolving the district's environmental and social issues.

From an industry perspective, it means an upgrading and transformation of industry value chains. It means promote the development and upgrading of Pudong headquarters offices and research centers.

From a district competitiveness perspective, providing higher quality company service and a more flexible district environment will attract higher quality companies, instead of attracting these companies by low costs and beneficial tax policies alone.

From the perspective of the district's social development, acceleration of sustainable development instead of simply paying attention to simple economic development will help bring about the coordinated development of the economy, society, and the environment.

It can't be denied, Pudong's advancement of a CSR system and improving the district's responsible competitiveness is an entirely new job in China. Considering its content, form, and mechanisms, it is very exploratory. This kind of innovative attempt reflects the meaning of "innovate Pudong" and has profound and far-reaching meaning and influence for Pudong's corporate development and choices in seeking Pudong's new development strategy.

---

Pudong's push of a CSR system is strategic, far-sighted work, and therein uses a variety of methods that aim for analytical resolution of difficulties and problems and obtaining responsible competitiveness breakthroughs. This helps to implement Pudong's comprehensive pilot reform area targets, and bring about Pudong's new mode of development.

Pudong New District, in exploring CSR and responsible competitiveness, has already acquired definite results and we have reason to believe that the Pudong New District in this area can have more gains, and accordingly achieve its responsible corporate, service government and harmonious Pudong goals.

## Acknowledgements

---

This Chinese version would not have been possible without the help of numerous people, especially those who made comments on early drafts of the articles and helped organise responsible competitiveness roundtables in China. Special thanks goes to Cheng Shuaihua, International Centre for Trade and Sustainable Development; Mark Halle, International Institute for Sustainable Development; Rolf Dietmar, GTZ; Simon Evenett, St. Gallen University; Guo Peiyuan, Syntao; Professor He Zhiyi, Jinzi Lu, and Yan Zhiyong (阎智勇), Chinese Federation for CSR; Isabel Hilton, *China Dialogue*; Huang Xiang, *Fortune China*; Li Weiyang, State Grid Corporation; Long Guoqiang, Development Research Center of the State Council; Alistair Monument, Forest Stewardship Council; Barry Naughton, University of California San Diego; Felicia Pullam, APCO Worldwide; Susan Shirk, University of California San Diego; Professor Yang Dongning, Peking University Guanghua School of Management; and Yin Gefei, Wang Bing, and Dai Yibo from the Ministry of Commerce's *WTO Tribune*.

In the process of translating the *State of Responsible Competitiveness 2007* (Chinese), the largest portions of editing and checking were undertaken by The WTO Tribune's Yin Gefei, Yu Zhihong, Zheng Ruojuan, Dai Yibo, and Cui Yi, with Alex MacGillivray, Paul Begley, and Joshua Wickerham on the AccountAbility side. *WTO Tribune's* Xu Zhiqiang did design and typesetting work and *WTO Tribune's* Wang Fen was in charge of printing.

## Notes

---

- 1 On the converse, if companies seek partnerships with non profit organisations, Globescan, CSR Monitor, 2006 (reported in AccountAbility's "What Assures Consumers" (2006) find that 91 percent of Chinese consumers agree that "respect for company would go up if they partnered with an NGO".
- 2 <http://www.sgcc.com.cn>
- 3 Geneva, July 2007
- 4 [http://www.unglobalcompact.org/Issues/Environment/Climate\\_Change/index.html](http://www.unglobalcompact.org/Issues/Environment/Climate_Change/index.html)
- 5 HSBC Climate Change Confidence Index, [http://www.hsbc.com/1/PA\\_1\\_1\\_S5/content/assets/newsroom/hsbc\\_ccindex\\_p8.pdf](http://www.hsbc.com/1/PA_1_1_S5/content/assets/newsroom/hsbc_ccindex_p8.pdf)
- 6 Ting Shi, "Wen warns of grim environmental challenge", *South China Morning Post*, July 10, 2007
- 7 [www.forestry.gov.cn](http://www.forestry.gov.cn)
- 8 全球500强史泰博公司高管称将与APP解约 (Upper Management at Fortune 500 company Staples ends relationship with APP), <http://finance.cctv.com>, February 13, 2008.
- 9 Nao Nakanishi, "RPT-Greenpeace hails B&Q China for hardwood curbs," Reuters, <http://www.alertnet.org/thenews/newsdesk/PEK77982.htm>, 12 Jun 2007
- 10 <http://www.ccb.com>
- 11 Available at [www.accountability21.net](http://www.accountability21.net).
- 12 'Modelling Study of Air Pollution Due to the Manufacture of Export Goods in China's Pearl River Delta' David G. Streets, Carolyne Yu, Michael H. Bergin, Xuemei Wang, and Gregory R. Carmichael, *Environ. Sci. Technol.*; 2006; 40(7) pp 2099 - 2107; (Policy Analysis) DOI: 10.1021/es051275n.
- 13 'CO2 Embodied in International Trade with Implications for Global Climate Policy', Peters, G & Hertwich, E., *Environ. Sci. Technol.* 2008, forthcoming.
- 14 "Chinese company governance reports (2007): stakeholders and corporate social responsibility" ( "中国公司治理报告(2007):利益相关者与公司社会责任") by the Shanghai Securities Trading Research Center Publishing House, Fudan University, 2007. See also, "尚福林: 保护利益相关者 履行社会责任", 2007年11月19日, at <http://finance.sina.com.cn/stock/t/20071119/05311799554.shtml>
- 15 "Corporate Social Responsibility – A Rite of Passage for Chinese Enterprises" from <http://www.chinatoday.com.cn/English/e2006/e200609/p10.htm>
- 16 AccountAbility's ongoing work with the State Council's Development Research Center, the Ministry of Commerce, and other partners, including the International Institute for Sustainable Development and the International Centre for Trade and Sustainable Development, seeks to identify the right market-based initiatives and create the right partnership alchemy to improve China's long-term sustainable trade strategy. To be published in late 2008.
- 17 <http://isotc.iso.org>.
- 18 Aaron Chatterji and David Levine (2006), 'Breaking Down the Wall of Codes', *California Management Review*.
- 19 Päivi Hämäläinen, Jukka Takala and Kaija Leena Saarela, (2006) 'Global Estimates of Occupational Accidents', *Safety Science* 44, pp. 137-156.

- 
- 20 Ni Pengfei: 'Blue Book of City Competitiveness', Institute of Finance and Trade Economics, CASS, [http://cms.cass.cn/show\\_News\\_e.asp?id=18838](http://cms.cass.cn/show_News_e.asp?id=18838).
- 21 Chen Yongzheng, "Discussion on CSR systems, formation requirements and new forms," *CSR in China*, Chinese Academy of Social Science Press, 2004.
- 22 <http://www.socialfunds.com/page.cgi/interview3.html>
- 23 Yin Gefei, Yu Zhihong, Cui Shengxian, *Responsible Competitiveness: Global Corporate Social Responsibility Best Practices*, Corporate Management Press. 2006. Also see: <http://chinawto.mofcom.gov.cn/aarticle/by/ca/200701/20070104274102.html>
- 24 Zhu Qingwei, Yin Gefei, "The Meaning of Corporate Social Responsibility and its historical background", *WTO Tribune*, October 2004.  
Available www: <http://www.51dh.net/magazine/html/566/56603.htm>
- 25 Porter, Michael, and Kramer, Mark, *The Competitive Advantage of Corporate Philanthropy*, *Harvard Business Review*, December 2002. Available www: [http://harvardbusinessonline.hbsp.harvard.edu/hbsp/hbr/articles/article.jsp?articleID=R0212&ml\\_action=get-article&print=true](http://harvardbusinessonline.hbsp.harvard.edu/hbsp/hbr/articles/article.jsp?articleID=R0212&ml_action=get-article&print=true)

Responsible Competitiveness is the strategic alignment of business action, public policies and social enablers to make sustainable development count in global markets. Countries, cities, sectors and businesses have enormous potential to build new markets that encourage the mainstreaming of responsible business practices.

What progress is there towards these goals? The State of Responsible Competitiveness 2007 is the most comprehensive assessment of responsible business practices to date, covering 108 countries around the world. It is essential reading for investors, politicians, businesses and activists.

The report is full of bold thinking and practical examples of how to combine innovation and collaboration, with fifteen essays from leading experts and policy-makers, from **Sir Nicholas Stern** on tackling climate change and **Professor Laura Tyson** on closing the gender gap to **Dr. Anwar Ibrahim** on accountability among the Asian Tigers.

*“The State of Responsible Competitiveness demonstrates the practical potential of responsible competitiveness strategies to deliver trade and investment while striking the right balance between national and global interests, and public and private gain.”*

**Pascal Lamy**, Director-General of the World Trade Organization

*“The report pinpoints exciting market opportunities, and also risks that politicians, businesses and investors need to manage. In short, the State of Responsible Competitiveness 2007 is the indispensable guide to understand how markets are reshaping to reward competitiveness for the 21st Century.”*

**Hon. Al Gore**

The State of Responsible Competitiveness is AccountAbility's fourth assessment of responsible business practices around the world.

Find out more: [www.accountability21.net](http://www.accountability21.net)

This project has been supported by:

