

STATE OF POWER 2020



Beyond 'China, Inc.'

Understanding Chinese companies

Lee Jones



In November 2011, in the smouldering wreckage of Tripoli at the end of Libya's civil war, a Western journalist found documents showing that three Chinese state-owned companies had agreed to smuggle weapons to the embattled Gadhafi regime. This violated a United Nations arms embargo, ostensibly supported by the Chinese government, which had also authorised NATO intervention to avert a feared genocide. China's Ministry of Foreign Affairs (MFA) claimed the government had been unaware of the deal, and that the arms had never been delivered. But Libya's rebels insisted that 'these guns arrived and were used against our people', ruining Beijing's efforts to cultivate closer ties with them in order to safeguard oil and construction contracts. China's efforts to persuade the world it is a 'responsible great power', willing to play by global rules, suffered yet another setback.

Similar, now commonplace, stories raise the question of how to understand Chinese companies, many of which have become major global players. One interpretation is that, because China is tightly controlled by an authoritarian regime, these companies must be directed by their political masters. They are deliberately deployed to grab resources, extend Chinese influence, and steal foreign technology. This outlook fuels worries about Chinese nuclear companies' involvement in power-plant development; Huawei's participation in 5G network-building; and Chinese infrastructure firms' role in Beijing's 'Belt and Road Initiative' (BRI), which is often seen as a geopolitical 'grand strategy', designed to ensnare developing countries in a 'debt trap'.

The other, perhaps more disturbing, interpretation – and in fact far closer to the truth – is that Chinese companies operating overseas are often very poorly controlled. Although Chinese leaders could, in theory, direct state-owned enterprises (SOEs) for political purposes, in practice, they adopt an arms-length, regulatory approach, permitting these companies to pursue their own profits, not China's 'national interest'. Many government agencies typically have little or no idea what companies – even major SOEs – are doing, until scandals emerge. So, it is entirely plausible that the MFA really was unaware that Chinese arms companies were trading with Gadhafi. They are frequently caught out by diplomatic crises triggered by corporate malpractice, and forced to clean up the mess.

Rather than imagining a monolithic 'China, Inc.', using corporate power to achieve geopolitical domination, we must unpack the Chinese party-state in order to understand the complex actors and interests at work and ultimately to improve Chinese companies' global conduct.

Chinese corporations today

Many Chinese firms are now powerful global actors, particularly in strategic sectors like extractive industries, telecommunications, hydropower and infrastructure development, and increasingly, in financial services and hi-tech industries.

One commonplace interpretation of Chinese companies is that they are deliberately deployed to grab resources, extend Chinese influence, and steal foreign technology.

In 2000, when Beijing launched its official ‘going out’ policy, Chinese outbound foreign direct investment (COFDI) was just \$2.3 billion. In 2018/19, it was \$129.8 billion, taking the total stock from \$27.8 billion to \$1.94 trillion.⁷ Today, of the Fortune 500 list of the world’s largest companies, 119 are Chinese, just behind the United States’ 121 (see Table 1).⁸ Although most became large because they are highly protected cartels in the world’s largest domestic market, many have long outgrown this cocoon, acquiring a major global presence.

Table 1: Chinese companies in the Fortune 500

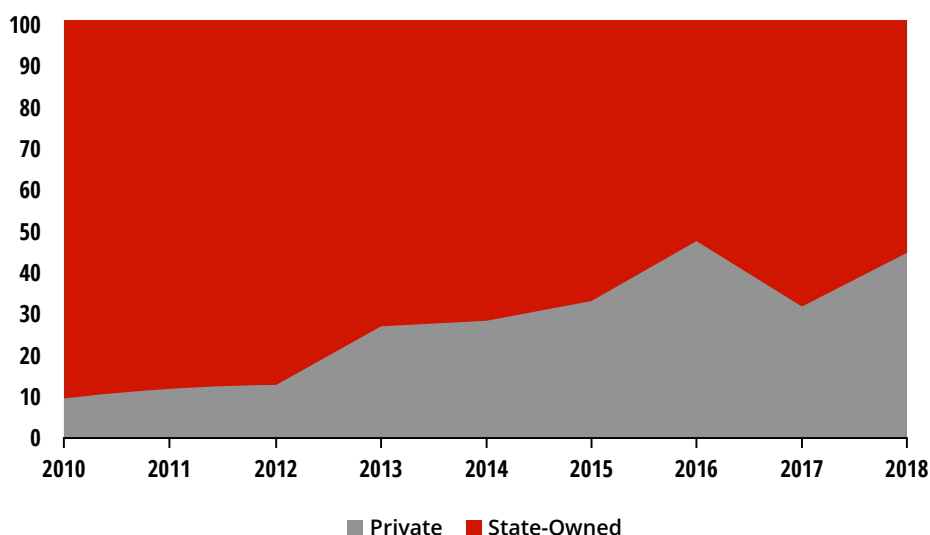
No. of Chinese Firms by Rank		Main Sectors and Illustrative Examples with Position
1–10	3	Petrochemicals (Sinopec #2); energy (State Grid #5)
11–30	3	Construction (China State Construction Engineering #21); financial services (ICBC #26)
31–50	4	Financial services (China Construction Bank #31); manufacturing (SAIC Motor #39)
51–100	13	Financial services (China Life Insurance #51); construction (China Railway Engineering #55); telecommunications (Huawei #61); petrochemicals (China National Offshore Oil #63); manufacturing (Dongfeng Motor #82)
101–250	40	Telecommunications (China Post #101); energy (China Southern Power Grid #111); extractive industries (China Minmetals #112); financial services (People’s Insurance Co. #121); manufacturing (Lenovo #212); commerce (COFCO #134); retail (JD.com #139; Alibaba #182); aerospace and defence (Norinco #140); petrochemicals (ChemChina #144); steel (China Baowu Steel #149); technology (Tencent #237); shipbuilding (China Shipbuilding Industry #243)
251–500	56	Mining (Jiangxi Copper #358); manufacturing of capital and consumer goods (Jardine Matheson #280; CRRC #359; Haier Smart Home #448; Xiaomi #468); petrochemicals (Shaanxi Yanchang Petroleum #263); Shipping (COSCO #279); aerospace and defence (China Aerospace Science & Industry #322); retail (Suning.com #333); wholesale (XMXYG #338); energy (State Power Investment #362); financial services (AIA #388); construction (Anhui Conch #441).

Beyond these headline-grabbing giants, however, Chinese enterprises are remarkably diverse. Some are tiny, family-owned ventures; others are state-owned conglomerates employing hundreds of thousands, and with subsidiaries listed on foreign stock exchanges.

China’s Company Law mandates corporate structures similar to those in the West. Decisions are ultimately made by annual shareholders’ meetings, which appoint the board of directors and a smaller supervisory board. The directors appoint company managers, though typically the chair is involved in day-to-day management. Supervisory boards, a third of whose members must be company employees, are relatively weak, with power largely vested in the directors. The major difference with Western corporate governance is the presence of Chinese Communist Party (CCP) branches in all SOEs and most large private firms.

Chinese companies are mainly categorised as either private or state-owned, though in practice they are not as distinct as is often imagined. China’s largest companies – including those operating internationally – are predominantly state-owned: 82 of the 119 Chinese firms in the Global Fortune 500 are SOEs. The largest private firm, Huawei, ranks 61st globally, behind 15 SOEs. Measured by number or output, however, most Chinese companies are private. Private firms generated about two-thirds of China’s gross domestic product (GDP) and 80 per cent of economic growth by 2000,⁹ and 44 per cent of COFDI in 2018 (see Figure 1).

Figure 1: Share of Chinese Outbound Investment by Enterprise Type¹⁰



That said, distinguishing private and state-owned firms is often difficult. Many firms, particularly smaller ones, are purely private, raising capital and selecting investments like any other capitalist enterprise, accounting for about 25 per cent of COFDI in 2016. Moreover, many limited liability companies (LLCs), which comprised 43.2 per cent of COFDI, involve a mixture of private and public shareholders, with SOEs sometimes enjoying controlling stakes.¹¹ SOEs own an estimated quarter of private firms, including subsidiaries listed on foreign stock markets; likewise, many SOEs have private shareholders.¹²

It is also unlikely that any private enterprise could have become a giant like Huawei, Alibaba or Xiaomi without party-state patronage. Huawei, for example, claims to be 99 per cent employee-owned, yet ownership is formally vested in a trade union committee, and all labour organisations are ultimately under CCP control. Moreover, employee shareholding is stringently regulated, and Huawei has long operated in a sector that was, until recently, technically off-limits to private firms. Such flagrant law-breaking strongly suggests party-state sanction. Court documents also show that Huawei issued share certificates to state-owned telecommunications firms in Shenzhen, and the political economist Yasheng Huang claims it is 'widely held knowledge that Huawei has backing from the Chinese military. It is inconceivable that a politically naïve private entrepreneur could have gone as far as this firm has'.¹³ Moreover, all companies ultimately have a constitutional obligation to cooperate with the state, and under Chairman Xi Jinping the CCP has sought to strengthen its presence within private firms – though, in practice, the branch officials are typically corporate managers. For instance, Huawei's chairman is a party member, and its CEO is the company's CCP branch secretary.

This does not, however, imply a crudely monolithic party-state control of business, even for SOEs. Rather, corporate and party-state power have become intertwined. Thanks to privatisation, bureaucrats have become business people, while entrepreneurs have been drawn into the party-state. By 2018, a fifth of seats in China's national legislature and consultative committee were allocated to business people, of whom 153 were designated 'super-rich', enjoying a combined wealth of \$650 billion.¹⁴ Chairman Xi's family's assets reportedly total \$1bn,¹⁵ while former premier Wen Jiabao's top \$2.7bn.¹⁶ This is mirrored, at a smaller scale, among sub-national governments, which enjoy substantial autonomy to interpret Beijing's policies. Sinologists characterise this as the rule of 'red capitalists', 'bureau-preneurs', or 'cadre-capitalists'. It implies not simply party control over business, but the intrusion of capitalist logics into

the party-state itself, resulting in vicious competition, rampant corruption, and even 'local mafia states' under predatory provincial bosses.¹⁷

This shift towards money-making is reflected in the management of SOEs. Beijing has privatised most small and medium SOEs, and merged the rest, and now owns just 97 mega-conglomerates, largely in 'strategic' sectors. The vast majority – some 110,000 – are owned by sub-national administrations; their share of SOEs' outbound investment rose from 13 per cent in 2006 to nearly 90 per cent by 2016.¹⁸ Crucially, SOEs have also been 'corporatised', becoming for-profit entities under arm's length supervision. Ownership is now vested in State-owned Assets Supervision and Administration Commissions (SASAC) at various levels, whose primary mission is – like any private shareholder – to maximise the value of its investment. SASACs appoint SOE chairs and directors and, although these are typically career CCP apparatchiks, their pay and career progression are evaluated against economic targets. SASACs have no expertise or capacity to make detailed business decisions, which are left to company officials whose main incentive is to make money. SASACs typically intervene only when SOE conduct threatens to undermine the value of state assets.

Thus, although it is technically true that no SOE boss could refuse a direct order from Chairman Xi, in practice, this is not how SOEs operate, since they are primarily for-profit companies. Far from simply following government orders, SOEs frequently extract considerable state support to pursue their own corporate agendas, often ignoring Chinese laws and regulations. Some SOE chairs, notably in the oil sector, still retain a bureaucratic rank equivalent to vice-minister, enabling them to defy all but the most senior leaders' instructions, and giving them ready access to policy-makers. All SOEs – and favoured private firms – enjoy privileged access to credit, and can often secure policy concessions, permits and licenses by claiming that their corporate schemes are essential to implement the latest CCP initiative. This can create the impression that SOEs are slavishly implementing government edicts, when in reality they are exploiting top leaders' slogans to pursue their own interests.

Xi's BRI exemplifies this, being less a top-down grand strategy than a wish-list populated by provinces' and companies' existing projects, which have exploited this ill-defined 'one belt, one road' slogan to kick-start stalled projects and grab new sources of financing.¹⁹ Indeed, far from being directed by strategists in Beijing, Chinese development financing has long been driven by SOE lobbying to gain lucrative tied-aid projects, developed alongside would-be recipients. Conversely, when projects are not in SOEs' corporate interests, they can resist injunctions even from the most senior party-state leaders. For example, as part of the BRI, the Chinese government has repeatedly committed its nuclear companies to build power plants in Eastern Europe, but these firms' demands for high rates of return has blocked substantive progress.²⁰

SOEs' capacity to tap the state to fuel their corporate expansion is clearest with respect to their privileged access to finance, particularly from the policy banks (China Development Bank and the Export-Import Bank), but also commercial banks, illicit local government financing vehicles, and shadow banking institutions. Because SOEs are state-backed, lenders typically assume that loans will eventually be repaid. Coupled with a standing injunction to maintain economic growth, and powerful politico-business

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networks, this generates enormous moral hazard. Despite generating only a quarter of China's GDP, SOEs hold 60 per cent of corporate debt, owing \$12.5 trillion by 2014, when China's total corporate debt exceeded that of the US at 163 per cent of GDP.²¹

This capital is often poorly spent. The ambition of SOEs and their political backers, coupled with easy access to capital, has fuelled irrational investment, generating vast surplus capacity domestically – over 30 per cent in many heavy industries – and loss-making investments overseas. In 2006, China's Ministry of Commerce (MOFCOM) reported that only half of China's foreign investments were profitable.²² Despite efforts to improve due diligence, by 2014, China's overseas assets, now totalling US\$6.4tr, were still yielding a net loss.²³

Where are Chinese companies investing and why?

These figures suggest that, far from being tools of a cunning, imperialist strategy, many Chinese companies are actually rather bad at foreign investment. Poor returns may partly reflect a longer-term approach than that taken by Western firms. But the deeper causes lie in Chinese firms' inexperience, the crowded nature of secure, profitable markets and – as we shall see later – weak regulation.

Chinese firms are new to international markets, and even the most experienced have operated outside China only since the 1990s. Moreover, with the best opportunities already taken by companies from more advanced capitalist states, Chinese firms have often been pushed into riskier territories. This, rather than geopolitical strategy, explains why Chinese oil companies, for example, frequent so-called 'rogue states' like Iran, Myanmar and Sudan, with Beijing forced to partner with them to facilitate SOEs' outward expansion.

The destinations of COFDI also underscore that Chinese firms are primarily profit-seeking, rather than being directed politically. Contrary to widespread belief that Chinese firms primarily target Asia and Africa as part of a global 'resource grab', COFDI is actually concentrated in advanced economies, where risks are lower and profits more assured, and is increasingly diversifying away from energy and mining (see Figures 2 and 3). Moreover, five years into BRI, just 13 per cent of COFDI goes to the 56 states officially designated 'BRI countries'.²⁴ Chinese firms are reluctant to invest where they do not anticipate making profits, even when China's top leader urges them to do so.

Figure 2: Destinations of Chinese outbound foreign direct investment²⁵

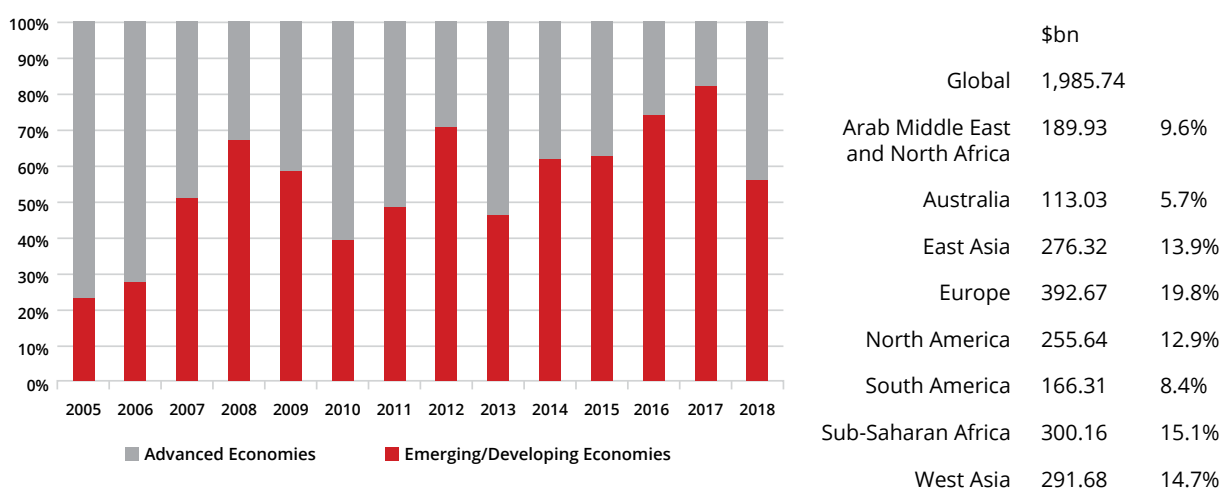
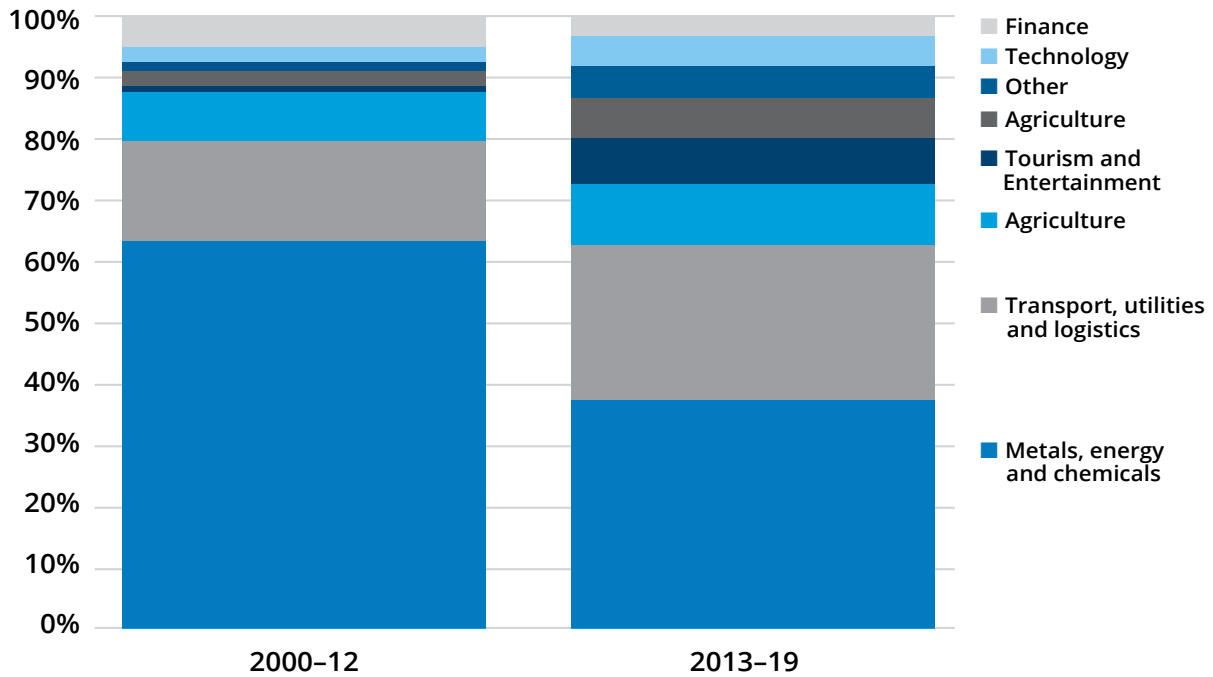
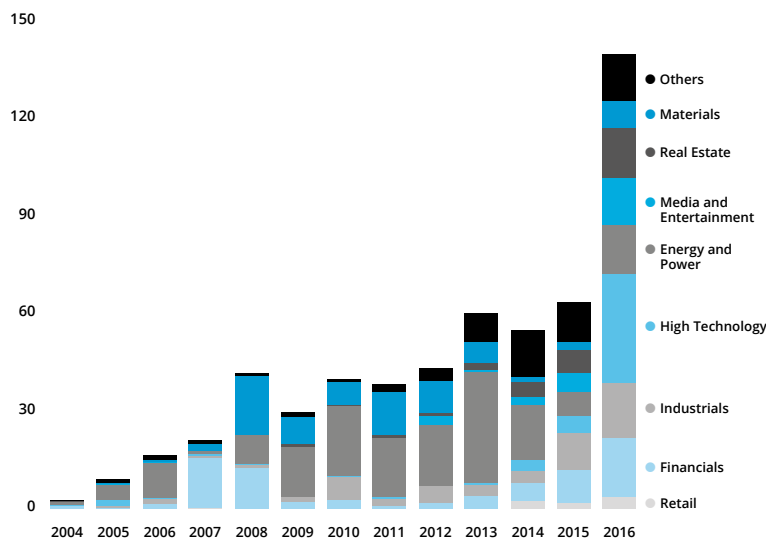


Figure 3: Chinese outbound foreign direct investment by sector²⁶



This general pattern is mirrored in the growth in Chinese mergers and acquisitions (M&As). Increasingly, Chinese firms are becoming major shareholders in foreign companies, which often facilitates quicker profits, or access to markets and technology, than starting from scratch. Sometimes, foreign firms become wholly-owned subsidiaries of Chinese enterprises, but often Chinese capital is combined with foreign investment, producing mixed ownership. For China's overseas M&As in 2018, 61 per cent of financing came from overseas.²⁷ Moreover, despite frequent assertions that Chinese overseas investment is all about resource-grabbing in the Global South, energy and mining M&As actually fell from two-thirds from 2005 to 2013 to a fifth by 2016 (see Figure 4), while in the first three quarters of 2018, the value of M&As in Europe (\$60.8 billion) and North America (\$8.4 billion) vastly exceeded the combined total for Latin America, Africa, Asia and Oceania (\$37.7 billion).²⁸ Chinese firms are increasingly targeting high-tech companies, to acquire foreign technologies and shift to higher value-added activity.

Figure 4: Aggregate value of Chinese M&As (billions of dollars)²⁹



China's shaky regulatory system

CCP control over business is also compromised by China's fragmented governance system. Contrary to widespread belief that China is a tightly controlled totalitarian regime, Sinologists have long documented the emergence of 'fragmented authoritarianism'. Endless reforms have dispersed power and authority horizontally, across multiple ministries, commissions, agencies and party offices, and vertically, to China's sub-national governments. This complex governance regime, in practice, grants wide latitude to for-profit companies. Although regulations have more recently tightened in response to frequent overseas scandals – leading to inter-state crises – governance remains weak, particularly given China's massive global footprint.

The main agencies responsible for regulating Chinese firms operating overseas are listed in Table 2. Notably, foreign policy institutions, like the MFA and the CCP's Foreign Affairs Commission, have no power over companies. Authority is dispersed widely and deeply, with little practical coordination. For example, China's energy sector is overseen by 11 ministerial-level agencies which, along with powerful SOEs, have repeatedly resisted the creation of a super-regulator capable of imposing order.

Table 2: Agencies regulating Chinese overseas enterprises

Agency	Role
National Development Reform Commission (NDRC)	Drafts general economic plans and policy guidance. Must approve large-scale investments (over \$100m/ over \$300 million in resources sector) and all infrastructure-related projects.
MOFCOM	Primarily responsible for regulating overseas Chinese firms. Must approve outward investment by non-financial firms, and monitor post-investment activities.
Subnational governments	Supervise locally owned SOEs. May interpret national guidelines to suit local conditions/ issue own regulations that conform with national law. Sub-national bureaux of NDRC and MOFCOM must approve smaller-scale investments.
People's Bank of China (PBC)	Must approve financial firms' outward investment, alongside the NDRC.
SAFE	Monitors post-investment activities with MOFCOM where foreign exchange reserves are involved in financing projects.
SASAC	Supervises centrally owned SOEs, including overseas investment practices. Sub-national counterparts oversee locally owned SOEs.
Functional ministries	Seek to regulate activity in their particular domain, e.g. State Administration of Forestry issues regulations for logging companies operating overseas.
Policy, state-owned and private banks and sovereign wealth funds	Regulate debt-funded projects (see Table 3).
CCP Central Commission for Discipline Inspection (CCDI)	Investigates breaches of party discipline, e.g. corruption allegations.
Industry associations	Issue voluntary guidelines in particular sectors.

Furthermore, Chinese regulations are typically exceedingly vague and exhortatory, presented as 'suggestions', 'guidelines' and 'opinions' rather than detailed laws. They also sit alongside general directives to promote rapid growth and international expansion, and political initiatives like increasing energy security, building the 'belt and road', and bolstering China's global standing.

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Companies then decide how to balance such contradictory priorities. In practice, they typically pursue their own corporate agenda, appealing to those party-state edicts that best support their interests, which provides political cover if things go wrong. Major malfeasance or serious foreign backlash will always risk punishment. However, because regulatory frameworks are so confused, and SOE bosses are judged primarily on economic criteria, they often escape serious punishment, even following major scandals.

For example, in 2011, relations between China and Myanmar were plunged into crisis by Myanmar's suspension of the Myitsone hydropower dam, part of a \$20 billion, eight-dam project under SOE China Power International. Notwithstanding many faults on Myanmar's side, CPI had also violated many Chinese and Burmese rules, contributing to a popular backlash and, arguably, to the resumption of armed conflict in Myanmar's Kachin state. However, only two senior managers were pushed aside following CCDI inspections.³⁰ Court proceedings show that even fabulously corrupt SOE managers are rarely punished even for *domestic* violations, while junior officials are often scapegoated.³¹ Indeed, only after the Myitsone scandal were SOE bosses made personally liable for legal and regulatory violations.

Despite efforts to tighten discipline under Xi, non-compliance remains rife. State Council data show that, despite legal requirements, in 2017, half of Chinese companies in BRI countries were neglecting social impact assessments, a third were not conducting environmental impact assessments (EIAs), and ignorance of local regulations was widespread.³² The deployment of CCDI units to some overseas projects in 2019 also suggests serious problems.

Difficulties in improving companies' behaviour reflects the dominance of 'cadre-capitalist' interests and the associated weaknesses of many regulatory apparatuses. The CCDI's recent forays aside, only MOFCOM has personnel stationed permanently in the economic offices of Chinese embassies. Their primary role is to support Chinese businesses' overseas expansion, and they typically triumph in struggles with local MFA personnel. Other ministries, regulators and financiers have no presence on the ground, forcing them to rely on companies' own statements, or whistleblowing by foreign governments or civil society. This creates wide scope for misguided investments and corporate malfeasance.

The decentralisation of corporate control and supervision compounds these problems. For example, in 2013, a major diplomatic crisis erupted between China and Ghana, sparked by the actions of small mining companies backed by officials in Guangxi province's Shanglin county. To deal with the exhaustion of local gold reserves, Shanglin supported over 33,000 gold miners to relocate to Ghana, where they engaged in illegal and environmentally and socially devastating practices, eliciting major local opposition. Confronted by Ghanaian protests, Guangxi officials tried to protect the miners, causing the crisis to spiral into a serious inter-state dispute.³³

Such blowback – starting in African countries in the mid-2000s – spurred Chinese regulators to issue increasingly tighter guidance (see Table 3), but guidelines typically remain vague, hard to police, and well below international best practices (see Table 4), with continued over-reliance on host-state regulations. This remains a huge challenge in many developing economies, particularly in many resource-rich countries hosting the riskiest Chinese projects.

Table 3: Tightening Chinese regulations

Year	Measure
2006	CDB becomes China's first bank to accede to United Nations' Global Compact, a voluntary CSR framework. State Council issues <i>Nine Principles on Overseas Investment</i> , requiring companies to comply with local laws, bid transparently for contracts, protect local workers' rights and the environment, and implement CSR.
2007	PBC's Banking Regulatory Commission issues <i>Green Credit Policy and Guidelines</i> , requiring Environmental and Social Impact Assessments (ESIAs) with loan applications and instructing banks to supervise clients' performance. Emphasises compliance with host-country, not international, standards. ExIm Bank updates its 2004 <i>Guidelines for ESIA of Loan Projects</i> and issues its <i>Environmental Policy</i> , requiring ESIA for loans and regular reviews throughout project implementation.
2008	ExIm Bank issues <i>Guidelines for ESIA</i> , requiring ESIA with loan applications, to include labour issues, land acquisition and migrant protection, and regular reporting from borrowers. ExIm Bank may inspect projects.
2009	MOFCOM and Ministry of Forestry issue <i>Guidebook of Sustainable Operations and Exploration of Overseas Forests by Chinese Enterprises</i> .
2010	State Forestry Administration issues <i>Guide on Sustainable Overseas Forests Management and Utilization by Chinese Enterprises</i> . MOFCOM, Ministry of Environmental Protection (MEP) and the Global Environmental Institute issue <i>Environmental Protection Policies on Chinese Investment Overseas</i> . Policy banks develop implementing guidance. CDB issues <i>EIA Framework for Small Business Loans Projects</i> , referring to the World Bank's EIA policy and related Chinese rules.
2012	PBC issues updated <i>Green Credit Guidelines</i> , requiring banks to ensure that borrowers observe international norms in addition to host-country laws when investing abroad.
2013	MOFCOM and MEP issue <i>Guidelines for Environmental Protection in Foreign Investment and Cooperation</i> . MOFCOM issues <i>Regulations of Behaviour in Competition Abroad in the Area of International Investment and Cooperation</i> .
2017	NDRC issues <i>Measures for the Administration of Overseas Investment of Enterprises</i> . Ministry of Finance issues <i>Measures for the Financial Management of Overseas Investments by SOEs</i> .

Table 4: Chinese versus international lending conditions³⁴

Requirement	Multilateral lenders			Chinese lenders/ regulators		
	World Bank	IFC	IDB	MOFCOM	CDB	ExIm Bank
Ex-Ante EIAs	✓	✓	✓	✓	✓	✓
Project review of EIAs	✓	✓	✓		✓	✓
Industry-specific social and environmental standards	✓	✓				
Compliance with host-country environmental regulations	✓		✓	✓	✓	✓
Compliance with international environmental regulations	✓					
Public consultations with affected communities	✓	✓	✓	✓		✓
Grievance mechanism	✓	✓				
Independent monitoring and review	✓	✓				
Establishing covenants linked to compliance	✓	✓	✓			✓
Ex-post EIAs					✓	✓

SOEs have also been urged to better manage investment risks and to respect local sensitivities, with many now developing corporate social responsibility (CSR) programmes. Again, there is tremendous diversity: some companies, particularly the more experienced, have developed detailed internal policies and CSR programmes; others have barely begun, and there is widespread variation even within sectors.³⁵ Moreover, reflecting their inexperience, including in negotiating with *domestic* civil society, most Chinese companies still view CSR as involving compensatory charity, rather than participatory approaches to project development. In Myanmar, for instance, one NGO director describes Chinese CSR as ‘charity/bribes’ to encourage local headmen or monks ‘to tell the villagers to shut up’.³⁶

Inexperienced and poorly regulated firms being forced into risky markets makes for a toxic brew, especially if national governments lack the will or capacity to regulate foreign investors properly. Little wonder, then, that Chinese companies are frequently implicated in socially and environmentally irresponsible practices, including land-grabbing and forced displacement, often in league with the local security forces tasked with facilitating their projects.

Implications for activists, foreign governments and donors

There are good reasons to be wary of Chinese investment – but not those trumpeted by Western policy-makers or the mainstream media, which tend to depict Chinese companies as being strategically directed from Beijing, as tentacles of an increasingly powerful ‘rising power’. In reality, Chinese companies – even those under direct state control – enjoy considerable autonomy, are weakly controlled and regulated, and are primarily motivated by economic and corporate rather than political imperatives. They often behave in ways that undermine official Chinese foreign policy goals, as examples from Ghana, Libya and Myanmar show.

The truly pressing problems with Chinese investment are those common to all capitalist enterprises: their interest is in extracting profit, not human needs or the environment, while regulatory frameworks – whether in China or in host states – are skewed towards protecting corporate interests, and are too weak to counter their destructive effects. Beijing may talk of ‘win-win cooperation’ and ‘cooperation for mutual benefit’, in an attempt to distinguish China from Western powers. But Chinese companies are no better than Western firms, and indeed their behaviour is often considerably worse. China is not an imperial power, deliberately pursuing ‘debt-trap diplomacy’. But it is ruled by a fractious and predatory cadre–capitalist class, whose interests may align with ruling elites in other countries but are frequently at odds with those of Chinese workers, and those affected by Chinese companies’ overseas investments.

In seeking to address this challenge, activists, governments and donors must avoid resorting to ‘China-bashing’, which lets local collaborators and non-Chinese corporate actors off the hook. Exploiting ‘Sinophobia’ may generate support for campaigns against misbehaving Chinese firms in host countries, but often stirs racist sentiment and deflects criticism, neglecting to hold local government officials accountable, and distracting attention from similar practices by non-Chinese enterprises.³⁷

Host-state regulation is crucial. Despite improvements, Chinese regulations remain relatively lax, relying on respect for host-state rules, while Chinese development financing is heavily recipient-driven. Governments receiving Chinese investment and projects must therefore bargain hard and strictly regulate Chinese businesses. They cannot rely on Beijing to do it for them. Yet such governments often

face contradictory pressures, not least from powerful interests standing to benefit from lucrative deals with China. Activists must therefore pressure these governments to resist, and not allow criticism to be deflected through nationalistic attacks on China. Donor agencies could also enhance host governments' capacity to assess the viability of proposed projects, negotiate contracts, and develop and enforce appropriate regulations – for all foreign investors, not merely Chinese companies, whose malfeasances are hardly unique.

Nationalistic attacks on 'China' also neglect its internal diversity, ignoring attempts by some political leaders, regulators and business leaders to improve corporate behaviour and close down potential avenues of influence.

Many agencies are tasked with ensuring Chinese companies behave well, while burgeoning regulation indicates growing recognition of, and determination to address, such problems, if only to safeguard China's 'soft power'.

Inclusive Development International's (IDI) handbook, *Safeguarding People and the Environment in Chinese Investments*, provides a comprehensive outline of regulators and regulations that activists can use in seeking to improve Chinese companies' conduct.³⁸ Engaging Chinese regulators and companies is far from easy. Chinese elites tend to share a worldview where 'sacrifices' are necessary for 'development', which is presented as a panacea for all social and political ills, and local opposition is often attributed to the US, or meddling Western NGOs.³⁹

Nonetheless, there are some success stories. The NGO International Rivers, for example, reports positive engagement from some hydropower companies in response to a benchmarking project that exposed the gap between national and company policies and on-the-ground behaviour.⁴⁰ The Chinese NGO, Global Environmental Institute, also managed to convince forestry regulators to tighten regulations after exposing disbelieving officials to the devastating impact of Chinese logging companies in Myanmar.⁴¹ Moreover, IDI's 'follow-the-money' approach helps activists to broaden their campaigning activities by targeting upstream financiers and downstream consumers, many of which are outside China, but can exert influence over China's increasingly internationally networked enterprises.

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