



# RESEARCH BRIEF

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## National Champions as ‘Learning Institutions’: Corporate Social Responsibility Norm Acquisition by Chinese State-Owned Enterprises during the Belt and Road Initiative

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### Key Points:

- The Chinese SOEs, during decades of operation overseas, have experienced a steep learning curve in acquiring norms and practices from host countries.
- These overseas learning are inspired by SOEs’ interactions with host country stakeholders rather than imposition from Beijing.
- Norms can diffuse from small, internationally weak, and democratic African states to the rising power of authoritarian China.

### Introduction

Globalized Chinese state-owned enterprises (SOEs) have long been champions of China’s state capitalism, spearheading the country’s economic

expansion. They have dual identities as both profit-making businesses and policy arms of Beijing and, since the announcement of the ‘going global’ initiative in early 2000, they have increased their overseas exploration. This was further institutionalized through the Belt and Road Initiative (BRI) in 2013. Chinese SOEs, with support from Chinese policy banks as well as through international competitive bidding processes,<sup>1</sup> are leading the expansion of the BRI worldwide.

Scholars have examined the developmental and political implications of Chinese SOEs’ operations, and economic engagement in general, particularly with respect to the implications for developing countries.<sup>2</sup> Increasingly, researchers have recognized the agency of host developing countries in shaping both Chinese-sponsored projects and Chinese actors’ behaviour despite the

<sup>1</sup> HONG ZHANG, CHINESE INTERNATIONAL CONTRACTORS IN AFRICA: STRUCTURE AND AGENCY (NO. 2021/47), SAIS-CARI WORKING PAPER (May 2021).

<sup>2</sup> CHRIS ALDEN, CHINA IN AFRICA (2005); DEBORAH BRAUTIGAM, THE DRAGON’S GIFT: THE REAL STORY OF CHINA IN AFRICA (2011); KEVIN GALLAGHER AND ROBERTO PORZECANSKI, THE DRAGON IN THE ROOM (2010).

power imbalance vis-à-vis China.<sup>3</sup> This Research Brief (RB) explores SOEs' active learning (norm acquisition) from small, internationally weak, and democratic African states to the rising power of authoritarian China.

Global engagement by Chinese SOEs exposes them to local and international norms and practices. Many SOEs, during decades of operations overseas, have experienced a steep learning curve in acquiring norms from host countries, particularly in countries with socio-political contexts starkly different from that of China. Yet it is not always clear how such exposure to host countries' norms influences the international operations of SOEs and what impact this has on China's domestic corporate practices. Scholarly work on international norm diffusion focuses on, and generally assumes, norm transmission from powerful states to less powerful states,<sup>4</sup> exchange within geographically proximate regions<sup>5</sup> or between countries with similar identities.<sup>6</sup> However, these studies do not always account for the potential for norm diffusion from Africa to China.

This RB contributes to the scholarly understanding of norm diffusion in conditions of power asymmetry by investigating how Chinese SOEs in Kenya learned from their interactions with host country stakeholders and adapted behaviours as exemplified in their corporate social responsibility (CSR). Drawing on my working experience in Kenya in 2013-2014, fieldwork during multiple trips to Kenya and China in 2017 and 2019, phone interviews in 2021, and secondary sources, I show that Chinese SOEs became 'learning institutions,'<sup>7</sup> acquiring norms such as transparency, stakeholder engagement, and gender equality from Kenyan stakeholders and Western counterparts, leading to changes in SOEs' corporate practices and culture.

The RB is organized as follows. I start by briefly introducing the socio-political context of Kenya and establishing the differences between Kenya and China. I then present the case study of AVIC International's (AVIC INTL) Africa Tech Challenge (ATC) innovation. The final section discusses the questions of why and how Chinese companies adopt such norms and practices in Kenya, and

<sup>3</sup> FOLASHADE SOULE-KONDOU, *Bureaucratic agency and power asymmetry in Benin–China relations* in NEW DIRECTIONS IN AFRICA-CHINA STUDIES (Chris Alden & Daniel Large, eds., 2019) 189; Yuan Wang, *Executive Agency and State Capacity in Development: Comparing Sino-African Railways in Kenya and Ethiopia*, COMP. POL. 54 349 (2022); Ben Lampert and Giles Mohan, *Sino-African encounters in Ghana and Nigeria: From conflict to conviviality and mutual benefit*, 43 J. CURRENT CHINESE AFF. 9 (2014); Frangton Chiyemura, Elisa Gambino and Tim Zajontz, *Infrastructure and the politics of African state agency: shaping the Belt and Road Initiative in East Africa*, CHINESE POL. SCI. REV. 1 (2022).

<sup>4</sup> LINA BENABDALLAH, SHAPING THE FUTURE OF POWER: KNOWLEDGE PRODUCTION AND NETWORK-BUILDING IN CHINA-AFRICA RELATIONS (2020); G. John Ikenberry and Charles A. Kupchan, *Socialization and hegemonic power*, INTERNATIONAL ORGANIZATION 44 (1990) 283; Mona Lena Krook and Jacqui True, *Rethinking the life cycles of*

*international norms: The United Nations and the global promotion of gender equality*, EUR. J. INT'L REL., 18 103 (2012).

<sup>5</sup> Zachary Elkins and Beth Simmons, *On waves, clusters, and diffusion: A conceptual framework*, ANNALS AM. ACAD. POL. & SOC. SCI., 598 33 (2005); Arturo Santa-Cruz, *Constitutional Structures, Sovereignty, and the Emergence of Norms: The Case of International Election Monitoring*, INTERNATIONAL ORGANIZATION, 59 663 (2005).

<sup>6</sup> Amitav Acharya, *How ideas spread: Whose norms matter? Norm localization and institutional change in Asian regionalism*, INTERNATIONAL ORGANIZATION 58 239 (2004); Matthias Dembinski, *Procedural justice and global order: Explaining African reaction to the application of global protection norms*, EUROPEAN J. INT'L REL., 23 809 (2017).

<sup>7</sup> Matthew S. Erie, *Chinese Law and Development*, HARV. INT'L L. J., 62 51 (2021) (recognizes the learning of Chinese companies during their overseas practices; documenting Chinese actors' learning practice is a key element of CLD's work).

ventures into Chinese domestic politics by discussing the tentative conclusion from my current research - addressing the question of whether these norms and practices acquired in Africa are transferred back into SOEs' domestic operation, generating impact on China's domestic policy-making and wider corporate practice changes.

### **From China to Kenya: adapting to a different socio-political context**

Kenya became a democracy in 1992 and has held multiparty elections every five years, undergoing two presidential transitions. In the most recent elections held on 8 August 2017, the incumbent Jubilee Alliance under the leadership of Uhuru Kenyatta successfully defeated the highly competitive National Super Alliance, led by the veteran opposition leader Raila Odinga.

Kenya has one of the more vibrant media landscapes on the African continent, with professional and usually Western-trained journalists serving as watchdogs. The country also has a relatively active civil society organization (CSO) sector, and trade unions remain active with approximately 57 unions representing 2.6 million workers in 2018.<sup>8</sup> The Kenyan socio-political landscape is starkly different from the highly centralized political system in China, which was further exacerbated by Xi's ascendance to power and his consolidation of personalism to an unprecedented degree after Mao. China is also home to one of the world's most restrictive media environments with its sophisticated system of

censorship.<sup>9</sup> The publication of the law on foreign non-governmental organizations in 2017 and the 2016 legislation governing philanthropy significantly reduced CSOs access to funding from foreign sources and increased supervision and funding from the government. There is only one legal labour union organization, which is controlled by Chinese government and which has long been criticised for failing to properly defend workers' rights.<sup>10</sup>

Chinese companies operating in highly different socio-political context such as the one in Kenya frequently find themselves stepping into unfamiliar situations such as environmental and community welfare activism, labour unions, and media watchdogs. Kenyan employees of Chinese SOEs may resort to strikes to force the management to re-negotiate on wage and benefits, issues that Chinese managers are ill-equipped to deal with and which are a source of tension that reveal large cultural and management style differences.<sup>11</sup> The sheer size and visibility of the multi-billion dollar projects that Chinese SOEs work on, with frequent visits from high-profile local politicians as well as Chinese and other international political celebrities, draw these projects under the media spotlight. Used to highly controlled media serving as a mouthpiece of the Chinese government, Chinese SOEs find themselves beleaguered by 'biased' criticism in local and international newspapers and have

<sup>8</sup> Freedom House, *Kenya profile page*, <https://freedomhouse.org/country/kenya/freedom-world/2021> (accessed May 2022).

<sup>9</sup> Freedom House, *China profile page*, <https://freedomhouse.org/countries/freedom-world/scores?sort=desc&order=Country> (accessed May 2022).

<sup>10</sup> Ibid.

<sup>11</sup> UWE WISSENBACH AND YUAN WANG, *AFRICAN POLITICS MEETS CHINESE ENGINEERS: THE CHINESE-BUILT STANDARD GAUGE RAILWAY PROJECT IN KENYA AND EAST AFRICA (NO. 2017/13)*, SAIS-CARI WORKING PAPER (June 2017).

therefore developed the defence mechanism of 'keeping a distance with respect [敬而远之].'<sup>12</sup>

Yet some pioneering Chinese SOEs operating in Kenya, have evolved a cooperative relationship with host communities as well as with Kenyan and international media, actively incorporating local social and media norms. The following sections review AVIC INTL's CSR and public relations strategy in Kenya to illustrate this point.

### **Case study: AVIC INTL's 'Africa Tech Challenge'**

AVIC INTL is a Chinese SOE headquartered in Beijing. It has six domestic and overseas listed companies and has established branches in 60 countries and regions.<sup>13</sup> In the late 2000s, a decade after its entry in Kenya,<sup>14</sup> AVIC INTL won several large contracts, including some of the largest construction projects in the country.<sup>15</sup> One project involves an equipment provision and capacity building contract for Kenyan technical and vocational training (TVET) institutions.

Agreement for the first phase of this project which involved ten TVET institutions and three types of training centres (machining, electric engineering, and rapid prototyping) was signed in 2010, and has since been fulfilled. A Memorandum of Understanding (MOU) for Phase 2 was signed in 2013 and it was scheduled to end by 2020. Funding for these projects came from China Export and Import Bank (EximBank) concessional loans.

In 2014, the MOU between AVIC INTL and the Kenyan government was signed and pending EximBank's agreement for financing. AVIC INTL needed to show that Phase 1 was successful in order to secure future finance. However, implementation of Phase 1 on the ground was far from meeting the standard of 'success' with brand new machines purchased from China barely used. According to the then project manager, two factors were identified. Many remote towns in Kenya cannot provide stable electricity, and unstable electric current risks damaging expensive equipment. In addition, teachers in TVET institutions, even after weeks of training in China, were still not sufficiently skillful to operate the machines, let alone teach students.

Also in 2014, the China Foundation for Poverty Alleviation, a Chinese nonprofit organization with a government background, approached AVIC INTL headquarters in Beijing and proposed a CSR project featuring the provision of scholarships to African students to continue their study locally or in China. AVIC INTL headquarters allocated one million RMB (approx. US\$16 million) for the Kenyan office to implement the project in collaboration with the Foundation. AVIC INTL's Kenyan office was selected because this was the first office to start a TVET program,<sup>16</sup> and the scholarship proposal by the Foundation is also education-related.

<sup>12</sup> Weidi Zheng, *The Silent China: Toward an Anti-Essentialism Approach for South-South Encounters*, INT'L J. COMM. 16, 20 (2022).

<sup>13</sup> AVIC INTL corporate information page, [https://www.avic-intl.cn/col\\_loEn?columnsId=2055](https://www.avic-intl.cn/col_loEn?columnsId=2055) (accessed Jan. 27, 2021)

<sup>14</sup> The Aviation Industry Corporation of China entered Kenya in mid-1990s for military aviation trading, and in 2008, AVIC INTL became an independent subsidiary company, engaging in non-military activities including project planning, project financing management, export of electromechanical products, general contracting, operation, and maintenance

of overseas engineering projects. Based on information from AVIC International corporate information page.

<sup>15</sup> Ibid.

<sup>16</sup> AVIC INTL Kenyan office started TVET project as early as 2008, after a Kenyan Ministry of Education delegation visited China and raised this request to export machineries and training in support of Kenyan TVET institutions. Upon initiating the TVET project in Kenya, AVIC INTL institutionalized the TVET project to replicate in other countries. AVIC INTL Kenya was also among the first SOEs

The then TVET project manager Mr. Li (pseudonym) was unenthusiastic about this scholarship program. In his email to the senior management of AVIC headquarters, Li raised three difficulties in implementing the scholarship project, including the recipient selection criteria, monitoring and evaluation, and most importantly, the corrupt nature of the client ministry:

“The scholarship distribution has to rely on Kenyan Ministry of Education, which is seriously corruptive. Referencing to previous scholarship programs in cooperation with the Ministry, the scholarship tend to end up in the hands of some connected individuals (such as the nephew of the former permanent secretary); or the money were simply divided up within the Ministry of Education before they reach the students.”<sup>17</sup>

Li had another idea. During a seven-hour long drive to visit a vocational school, Li told his counterpart in the Kenyan Ministry of Education, Shikoli Isalambo Benard, that AVIC INTL was trying to develop a CSR project. Sun & Qi (2017) had a subsequent quote from Benard:

“They [the AVIC International staff] were saying, ‘we could build a hospital...’ I said, ‘All that is good, but it is being done by many people. But where you’ll have impetus: you’ve given us huge equipment, but the equipment is just here. We’re not utilizing it. So, if we have a competition to support this equipment, then really, you’ll be helping us as a country to build the confidence of our students that they can make things which can actually go out there.”<sup>18</sup>

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to explore overseas TVET project (Interview with Mr. Li, Mar. 19, 2022).

<sup>17</sup> Mr. Li’s email to AVIC INTL headquarters on Feb. 21, 2014.

<sup>18</sup> IRENE YUAN SUN AND QI LIN, CREATING A MARKET FOR SKILLS TRANSFER: A CASE STUDY OF AVIC INTERNATIONAL’S SKILLS TRANSFER PROGRAMS IN KENYA (NO. 2017/14), SAIS-CARI

Drawing on the Ministry’s past experience of hosting vocational competitions, Benard drafted a concept paper for the creation of what eventually became the Africa Tech Challenge.<sup>19</sup> In addition to the Ministry’s past experience and Benard’s strong enthusiasm, Li also drew from Japan International Cooperation Agency’s (JICA) long support to the Nakawa Vocational Training Institute in Uganda and experience from Japanese companies of conducting CSR and philanthropic projects – information shared via Li’s friend who was working in the Japanese Embassy in Uganda at the time.<sup>20</sup> More specifically, when Li visited the Nakawa Institute, he was impressed to see that JICA’s malfunctioning vehicles were sent to Nakawa for maintenance. Over the two decades of JICA’s cooperation with Nakawa, there were not only education, but a combination of production and education (产教结合) projects in Nakawa, bringing business benefits to the institution in addition to training students.

Li convinced AVIC INTL headquarters to conduct a machining skill competition in cooperation with the Kenyan Ministry of Education – the ATC. Li, with the help of the Ministry, visited 26 out of 46 TVET institutions in Kenya, and received 29 team applications. In the preliminary round, 18 teams were selected with 3 members in each team, and the top 6 teams were selected to participate in the final competition. After 23 days of training, the final competition selected three winning teams to be awarded with US\$100,000 machine parts contracts and three individual awards with opportunities to continue education in China.<sup>21</sup>

WORKING PAPER (Sept. 2017). This was confirmed in a separate telephone interview with the then TVET project manager Mr. Li, Nov. 21, 2021.

<sup>19</sup> *Id.*

<sup>20</sup> Phone interview with Mr. Li, Nov. 21, 2021.

<sup>21</sup> AVIC INTL, 2014, ATC Assessment Report.

AVIC INTL cooperated with the Inner Mongolia Technical College of Mechanics & Electrics to design the short training curriculum and flew two teachers from Inner Mongolia to Nairobi to train Kenyan candidates and prepare them for the competition. The ATC started in late July 2014 and the final competition was on 5 September, three months later.

The publication of the ATC was outsourced to a Kenyan public relations company. In addition to active local media engagement, AVIC INTL rented a billboard in Nairobi's busiest Harambee Avenue for multiple weeks, initiated ATC Talks,<sup>22</sup> and invited leaders from AVIC INTL and its parent company, Aviation Industry Corporation, the Chinese Ambassador, the Economic Councilor, the Kenyan Minister of Education and many other government leaders to the awards ceremony which attracted wide media coverage. An AVIC INTL internal document showing the media influence of ATC shows 53 media items of various stages of the ATC, including the opening and award ceremonies, trainings, and candidates recruitment. Nine out of the 53 pieces are from Chinese media groups in Kenya, and the rest are all Kenyan and African media. Interestingly, Western media groups are absent in this list. Li also worked to promote gender equality compatible with AVIC INTL's strictly merit-based selection criteria and made sure to have at least one female candidate for the opportunity to study in China.<sup>23</sup> The competition was held for three consecutive years with the third year including teams from Ghana, Uganda, and Zambia.

Since its initiation, the ATC has become AVIC INTL's signature CSR project, widely applauded

and promoted by AVIC INTL. Each year, the ATC was featured in the AVIC INTL headquarters' annual documentary series, *Glories and Hope*. Although the revenue of the TVET project cannot compete with construction projects from other AVIC branches, the ATC project was unique and with this project, Mr. Li was awarded AVIC INTL 'Best Overseas Employee.'

### Discussion and conclusion

This case study involving AVIC INTL is one of many illustrating how Chinese SOEs are absorbing CSR norms overseas. Is this phenomenon a reflection of a new strategy of Beijing's economic statecraft? Or is it a decentralized exposure to and acquisition of norms and practices from African democratic states? Details of the case study indicate that the norm diffusion explanation is the more likely. First, the SOE demonstrated a learning curve with respect to CSR norms and practices in the host country. Over time, AVIC INTL developed an innovative and successful CSR project with an elevated public relations strategy and an aspect of gender equality. Second, the norm entrepreneurs within the SOE acquired the norm via interactions with host country stakeholders. AVIC INTL's norm entrepreneur is Mr. Li, the project manager. Mr. Li incorporated the expertise from Kenyan counterpart and his exposure to Japanese corporate practices and JICA projects to come up with the solution for the obstacles of his project. Finally, there is norm diffusion via the SOE's internal structure. Through AVIC INTL's internal structures, information and experiences from the SOE's field offices in Kenya were applauded by their headquarters in China

<sup>22</sup> Three ATC Talks were organised - invited successful Kenyan entrepreneurs and young leaders to communicate

face-to-face with the students to share their entrepreneurial experiences and growth stories (AVIC INTL, 2014).

<sup>23</sup> Phone interview with Mr. Li, Nov. 21, 2021.

and shared in internal meetings, leading to wider corporate practice changes.

Although the Chinese government has encouraged CSR domestically and published CSR regulations for overseas projects, implementation has been slow because these regulations are largely voluntary in nature and have weak implementation monitoring requirements. To coincide with the global expansion of Chinese companies and BRI implementation, government agencies, both in Beijing and the provinces, have issued 121 guidelines and regulations from 2000 to 2016, mostly voluntary, requiring Chinese companies overseas to perform CSR or improve social, environmental, and governance domestically and overseas.<sup>24</sup>

In response to external criticism of Chinese companies' overseas behaviour, Beijing recalibrated the BRI and promoted new regulations to oversee its implementation.<sup>25</sup> For instance, in 2016, the Chinese Ministry of Commerce started to publish annual social and political risk assessments and held training programs for Chinese outbound investors. The Commercial and Industrial Bank published the first Belt and Road Green Bond at the Summit in 2019. And the Environmental Protection Agency committed to training 1,500 officials in BRI countries and establishing technology exchange and diffusion centers along the Belt and Road.<sup>26</sup> However, the majority of these are also voluntary in nature, and Beijing's regulatory bodies cannot

exercise effective control and oversight over BRI activities conducted locally or abroad.<sup>27</sup> AVIC's Kenyan office developed its CSR and media relations strategy not through imposition from Beijing, but from the company's interaction with host country communities and learning from Japanese counterparts in Africa.

The subsequent questions are: via links between SOEs and government, could there be measurable regulatory shifts and institutionalisation of these successful overseas CSR and public relations practices in China? Could CSR norms and practices travel from Africa to China via Chinese SOEs and generate policy changes? The closeness between SOEs and Beijing's policy-making process is evident; SOEs serve as both profit-making businesses and as policy arms of Beijing. Leaders of SOEs are at vice-ministerial level and often hold ministerial positions before or after serving as the head of SOEs, if not simultaneously. My hypothesis is that other Chinese companies will acquire these practices in their domestic and overseas operations either via emulating globalized SOEs or by reference to government guidelines and regulations. This learning process, or norm diffusion, could be accelerated via CSR platforms in Beijing, such as the Golden Bee conference, where companies share CSR practices. Such questions motivate my ongoing research.

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<sup>24</sup> UNDP 2017, 改革开放 40 周年: 改变中的中国企业生态与社会可持续发展 [THE 40TH ANNIVERSARY OF REFORM AND OPENING: THE CHANGING ECOLOGY OF CHINESE ENTERPRISES AND SUSTAINABLE SOCIAL DEVELOPMENT], UNDP CHINA (the report has an annex with a list of all 121 CSR related regulations

publicised by Chinese central and provincial government from 2000-2016).

<sup>25</sup> Min Ye, *Fragmented Motives and Policies: The Belt and Road Initiative in China*, J. E. ASIAN STUD., 21 193 (2021).

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.