

PERSPECTIVE

RESEARCHERS AT ISEAS – YUSOF ISHAK INSTITUTE ANALYSE CURRENT EVENTS

Singapore | 3 November 2021

The ESG Practices of Chinese State-owned Enterprises in Cambodia

*Chheang Vannarith**



China Road and Bridge Corporation (CRBC), under the umbrella of China Communications Construction Company (CCCC), a China state-owned company, has been including EIA and Social Safeguard Process in all its implementation processes in Cambodia. In this picture, Cambodia’s Prime Minister Hun Sen (2nd R) and tycoon Pung Kheav Se (R), chairman and board of director of Overseas Cambodian Investment Corporation (OCIC), attend a ground breaking ceremony to build a bridge across the Bassac river in Phnom Penh on October 26, 2020. Photo: TANG CHHIN Sothy, AFP.

**The author is Visiting Fellow at ISEAS – Yusof Ishak Institute and President of the Asian Vision Institute (AVI), an independent think tank based in Phnom Penh, Cambodia.*

EXECUTIVE SUMMARY

- Environmental, Social and Governance (ESG) reporting has gained policy traction over the years, and some Chinese companies have started implementing ESG procedures following their government's announcement to achieve carbon neutrality by 2060.
- Although there are attempts to improve sustainability and responsible business, Chinese state-owned enterprises in Cambodia, however, do not have ESG policy guidelines and reporting yet.
- The four state-owned enterprises discussed in this paper have not fully implemented ESG reporting. Therefore, there is a need to introduce and enforce ESG to enhance the quality and image of Chinese investments.
- The local government plays a pivotal role in promoting ESG reporting. Currently, Cambodia lacks a cohesive regulatory framework on ESG, and does not effectively exercise strict and transparent enforcement of existing environmental and social safeguards.
- Other key barriers to ESG development in Cambodia are the lack of understanding of the issues among the policymakers and the lack of access to detailed data on environmental and social safeguards for investment projects.
- The Cambodian regulator should introduce policy guidelines on ESG integration and reporting so that the quality and sustainability of investment projects can be enhanced.

INTRODUCTION

The state of Chinese companies' Environmental, Social, and Governance (ESG) reporting gained some momentum after China announced its ambition to achieve carbon neutrality by 2060. The key indicators of ESG include those concerning (1) The environment: Climate change, greenhouse gas emissions, waste and pollution, resource depletion, land use and biodiversity; (2) Social conditions: labour standards, diversity and inclusion, health and safety, data privacy, product safety and responsibility, learning and development, and; (3) Governance: Board diversity, bribery and corruption, executive compensation, shareholder rights and business ethics. The strategy suggested by Chinese corporations includes reviewing industry megatrends and peer performance, identifying opportunities created by the ESG movement, and embedding ESG into the company's vision and growth strategies.¹

However, policy implementation remains an issue. Based on official policy, China's economy is transitioning from "brute-force economic expansion" to a growth model that focuses more on "inclusive and environmentally sustainable growth", in which ESG adoption by Chinese companies is instrumental.² ESG can be another source of China's soft power projection as China's implementation of ESG presents "a serious shift towards meeting global standards and domestic-level sustainable development objectives".³ However, there are loopholes and gaps in implementing ESG standards, especially among Chinese investors overseas. This paper aims to shed light on the practices of Chinese state-owned enterprises regarding ESG application in Cambodia.

CAMBODIA'S REGULATORY FRAMEWORK RELATING TO ESG

In Cambodia, there is no law or regulation on ESG per se. Still, some regulatory frameworks support ESG standards and practices, namely regulatory framework on environmental protection, social securities, and employment and labour relations. Overall, there is a lack of coherent information and understanding on ESG among local policy makers. Different government agencies have different roles regarding ESG and the outstanding challenge is policy and institutional coordination between agencies. The Ministry of Environment oversees ecological protection while the Ministry of Labour and Vocational Training oversees labour relations and social securities

The environmental protection framework includes: The Law on Environment Protection and Natural Resource Management adopted in 1996, Sub-Decree on Management of Solid Waste adopted in 1999, Sub-Decree on the Water Pollution Control adopted in 1999, and Sub-Decree on the Control of Air Pollution and Noise Disturbance adopted in 2000. National Policy on Green Growth adopted in 2013 provides a comprehensive policy framework to develop a balance of economic development with environment, society, culture, and sustainable use of national resources.

Specifically, concerning investment projects in Cambodia, the Sub-Decree on the Implementation of the Environmental Impact Assessment (EIA) Process that was adopted in 1999 provides certain EIA guidelines. Meanwhile, the Ministry of Environment is responsible for scrutinising and reviewing EIA reports in collaboration with other concerned

ministries. It also has to follow up, monitor and take appropriate measures to ensure that project owners conform to the Environmental Management Plan while project construction is underway, and accede to their EIA report's approval. The investors or project owners have to pay the EIA examination service fee and monitor the project implementation. In practice, most EIAs are outsourced to private sector consultants due to the lack of human resources at the Ministry of Environment. The Ministry will approve the assessment result subject to payment of the service fee.⁴

Concerning labour rights and standards, the regulatory framework on employment and labour relations includes the Labour Law adopted in 1997, which provides comprehensive protection of labour rights and working conditions. In 2003, the Labour Arbitration Council was established with the support of the International Labour Organisation to resolve labour disputes. Under the Labour Law, the wage must be equal to the guaranteed minimum wage that ensures every worker a decent standard of living compatible with human dignity. Minimum wages in the garment and footwear sector have been negotiated among the trade unions, corporations and government agencies. The minimum wage in the garment and footwear sector has increased from US\$100 in 2014 to US\$192 in 2021. The minimum wage of workers in this sector is normally used as a reference for negotiation and determination of wages and other working conditions in other sectors.

The Law on Social Security Schemes for Persons Defined by the Provisions of the Labour Law was promulgated in 2002 to establish a social security scheme composed of a pension system. The pension system's objectives include providing old-age benefit, invalidity benefit and survivors' benefit; and occupational risk insurance to cover employment injury and provide occupational disease benefits. The National Social Security Fund launched in 2007 manages national social insurance schemes covering work injury and health insurance.

CHINESE COMPANIES IN CAMBODIA

Chinese companies must comply with EIA to get their investment projects approved, just like other domestic and foreign companies. Getting access to the EIA reports remains an obstacle as the project owners treat these reports with great confidentiality. However, Article 16 of the Law on Environmental Protection and Natural Resource Management (1996) stipulates that the Ministry of Environment, upon request from the public, needs to provide any information about the activities and encourage public participation for environmental protection and natural resource management. The lack of transparency, public participation and disclosure of EIA reports are issues that need to be addressed and improved.

According to the Asian Vision Institute survey in 2020, Chinese state-owned companies have varying standards regarding sustainability practices and ESG reports. These companies do not have any clear strategy to integrate environmental and social sustainability into corporate governance, and they do not have any ESG disclosure plans as yet. However, when Cambodian authorities set rules and regulations on ESG disclosure, they comply with local regulations by developing and disclosing ESG standard reports.

Concerning environmental and social safeguards, four Chinese state-owned enterprises are briefly discussed below. The information is based on the survey conducted by the research team from the Asian Vision Institute (AVI) in September 2020.

Table 1: Background Information of the Companies

	China Huaneng (Lower Sesan II)	China Road and Bridge Corporation	Yunnan Construction Investment Group	Bank of China
Year of establishment (in Cambodia)	2014	2001	2007	2010
Type of project(s)	Hydropower	Civil engineering and construction	Infrastructure investment	Financial services Banking services
Investment value (USD)	800 Million	NA	NA	1.1 Billion (As of 2019)
Location	Stung Treng Province	Phnom Penh	Phnom Penh	Phnom Penh
No of employee	210 (110 are Cambodians)	Around 100	Around 100	173
ESG-related policy	Sustainability Report (2020)	Social Responsibility Management		Corporate Social Responsibility Policy

China Huaneng

China Huaneng is one of the leading state-owned enterprises in China. Its operation portfolio includes development, investment, construction, operation and management of power sources; production and sale of power and heat; development, investment, construction, production and sale of businesses and products related to finance, coal, transportation, renewable energy and environmental protection, and; industrial investment, operation and management. In 2020, the company published its sustainability report highlighting its contributions to socio-economic development and environmental protection.

Its Lower Sesan II Hydropower project in Cambodia is one of the most controversial, given contradictory reports concerning environmental and social safeguard issues. The company conducted a feasibility study and fulfilled the EIA in 2011, before the project started in 2014. The project started its entire operation in 2018. Per the requirements of the “EIA Report”, the Lower Sesan II Hydropower plant has allocated funds and expenses for fish protection and environmental protection to fulfil its social responsibilities and to protect biodiversity.⁵

The feasibility study and EIA report show that six villages with a total population of about 900 households were affected by the project. The local villagers consist of Khmer and other indigenous ethnic groups. Their livelihoods, including traditional crop rotation cultivation, non-timber forest products collection, livestock raising, and fishing, are affected. The river plays an essential role in generating income, supporting subsistence, and protecting local livelihoods. Villagers from two villages (Srae Sronouk and Kbal Romeas Chas) refused to resettle to designated places.

Resettlement is indeed the most controversial issue. According to the company's report, the compensation regime was fair, and the company provided opportunities to the local people and contributed to the local socio-economic development. Concerning the resettlement issue, the survey findings by the Asian Vision Institute show that 7 per cent of the respondents are very satisfied, 18 per cent are somewhat satisfied, 4 per cent are very unsatisfied, and 18 per cent are slightly unsatisfied. The rest are neither satisfied nor dissatisfied. Various studies and reports illustrate the side effects of the project, resettlement issues and inadequate compensation.⁶

This 400 MW hydropower project is one of the most significant energy investment projects in Cambodia. It is a joint venture between China Huaneng—a Chinese state-owned enterprise—and Royal Group of Cambodia, a Cambodian conglomerate. The project costs about US\$800 million, covers a land area of 9,854 ha of government concession land. The project takes the form of BOT (Build-Operate-Transfer), with a cooperative operation period of 40 years before it transfers the ownership and operation to the Cambodian government. With a length of 6.5 kilometres, the dam is the largest in Cambodia. It can reserve 2.72 thousand million cubic meters of water, and the hydropower station generates and provides about 2 TWh of renewable energy *annually, contributing* about 20% of Cambodia's total energy supply capacity. Based on CDC's report in 2018, electric supply by hydropower shares approximates 34.5%. To meet fast-rising energy demand. By 2040, it is estimated that hydropower would reach 55%, compared to coal (30%), and renewable energy (10%).⁷

By commissioning a local think tank to conduct a field survey on the sustainability issue, Huaneng Group at least showed its willingness to improve its responsible business performance. While acknowledging the economic benefits of the project, the study by Asian Vision Institute has proposed to the company to further develop programmes to build necessary skills for the affected local community, preserve community forests for villagers to continue to get access to non-timber products, improve and develop community-based clean water supply, and develop the two villages that refused to resettle, without discrimination.⁸

China Road and Bridge Corporation

China Road and Bridge Corporation (CRBC) is under the umbrella of China Communications Construction Company (CCCC), a China state-owned company focusing on civil engineering and construction and operation of infrastructure projects, especially

those under the Belt and Road Initiative. In addition to the design and construction of infrastructure, CRBC is engaged in infrastructure equity investment, real estate development and management, and industrial park equity investment and development.

The company has been working closely with the Ministry of Economy and Finance to resolve acute problems before, during and after construction. CRBC submits a monthly report on the project's progress to the Ministry of Economy and Finance, and conducts meetings with other line ministries every three months. When conflicts happen at the sites, laws and regulations of Cambodia are to be applied. In every project implementation, EIA and Social Safeguard Process have been included by the company.⁹ The main infrastructure projects include Phnom Penh-Sihanoukville Expressway, National Road No.6, Bassac River Koh Thom Bridge, and National Road No.44. The Phnom Penh-Sihanoukville Expressway is a BOT project with a total investment of US\$2 billion, and is due to be completed in 2023.¹⁰

CRBC mainly purchases construction materials from a domestic company, except for the materials that are not available locally. To have a proper construction technique suitable to Cambodia's geography, climate, soil and other relevant supported facilities and techniques, CRBC started a Construction Laboratory in Sihanoukville province to conduct testing and training. With this laboratory, the company can reduce risks during construction.

Environmental and social safeguards have also been implemented following Cambodia's rules and regulations. However, the company does not have an ESG disclosure, and therefore, a detailed report on environmental and social safeguards is not available. The company has been involved in certain corporate responsibility activities such as helping construct small roads and providing training opportunities to local staff. The company's social responsibility management policy focuses on protecting local ecology, fulfilling social responsibility, promoting culture and education, and protecting employees' interests.¹¹

Yunnan Construction Investment Group

The Yunnan Construction Investment Group is a key state-owned company from Yunnan Province. The Group received an AAA credit rating domestically and BBB+ credit rating internationally – the best credit level among state-owned companies in Yunnan. It runs a wide range of businesses, including infrastructure investment and construction, investment and development in urban construction, real estate development, international investment and construction, commercial concrete production, building research, prospective design, vocational education and construction labour.¹²

Its representative office in Cambodia was opened in 2006. The main infrastructure projects constructed by the Group include the office building of the Council of Ministers of Cambodia completed in 2008, the new Siem Reap International Airport to be completed by 2023 with the capacity to annually receive 10 million passengers by 2030 and 20 million by 2050.¹³ The Group is also involved in developing rural roads funded by Chinese aid under Cambodia's Ministry of Rural Development.

Information on social and environmental safeguard measures is not available, however. The company neither has an environmental impact assessment report nor an ESG policy and disclosure guidelines. The company settles construction-related issues on a case-by-case basis.¹⁴ Since infrastructure projects constructed by the Group are mainly funded by Chinese aid, we can assume that the Group complies with the development cooperation agreement between China and Cambodia, and related local rules and regulations on environmental and social safeguards.

In terms of staffing, about 60% of the staff are local, mainly labour and technical staff. Engineers and professional staff come from China, and training for local staff is provided. During the Covid-19 pandemic, the company offered accommodation to reduce the risk of infection among staff members by reducing their interactions with outsiders.¹⁵ Notably, the main issue in the construction sector in Cambodia is the lack of local human capital. Hence, the company has needed to recruit engineers and professional staff from China.

Bank of China

The Bank of China (Phnom Penh Branch) was established in 2010, and was the first Chinese commercial bank in Cambodia. It mainly engages in corporate banking, personal banking, international settlement, trade financing and financial services. The company also facilitates commercial and investment activities between Chinese and Cambodian enterprises. One interesting project launched by the bank is a global SME cross-border matchmaking service to connect enterprises.

To improve the well-being of the people and assume more social responsibility, the company has set up an SME services department, and an inclusive finance service system. It has innovated the product system and service mode to realise sustainable development, focusing on inclusive financing and entrepreneurship development. Moreover, to assuage the hardships caused by the pandemic, the company has reduced the interest rate to SMEs and self-employed businesses.¹⁶

Concerning environmental protection, the bank has introduced policies to minimise potential risks and environmental impacts arising from its business development by reducing resources utilisation, improving resources efficiency and promoting environmentally responsible business practices. It has also implemented green procurement and encourages stakeholder engagement on sustainability issues. The Group has constructed a Sustainable Procurement Policy and Supply Chain Code of Conduct. In addition, it has developed green finance to promote green operation practice, environmental risk assessment projects, environmental performance disclosure and green public welfare activity.¹⁷

The company's corporate social responsibility activities focus on charity works such as donating masks and medical supplies to Cambodia's Ministry of Health to combat the Covid-19 pandemic, supporting the organisation of the annual conference of the Cambodia-China Friendship Association and donating to the Cambodia Red Cross. The company also

offers a staff development programme, which as of 2019, had trained more than 210 staff members.¹⁸

CONCLUSION

Although ESG standards have been promoted in China in recent times, Chinese state-owned enterprises functioning overseas have not fully integrated environmental and social frameworks into their corporate governance philosophy and practices. Due to the lack of local rules and regulations on ESG of the host country, Chinese companies are not obligated to have ESG integration and disclosure in their operations.

Noticeably, Cambodia's investment law does not contain explicit and comprehensive social and environmental safeguards. Other key barriers to ESG development in Cambodia are the lack of understanding of ESG especially among policymakers, limited data, and lack of transparency in Chinese investment projects' environmental and social safeguards measures.

The host country plays an enormous role in the implementation of regulatory social and environmental safeguards. The Cambodian government should introduce policy guidelines on ESG integration and reporting so that the quality and sustainability of investment projects can be enhanced. Moreover, Chinese regulators should also enforce ESG guidelines on their state-owned enterprises investing overseas. It will also serve foreign policy objectives and promote the sustainability and growth of the companies. The enhancement of the quality of Chinese investments overseas will significantly contribute to the soft power of China.

¹ World Economic Forum. 2021. A leapfrog moment for China in ESG reporting, http://www3.weforum.org/docs/WEF_China_ESG_Champions_2021.pdf

² Arisaig Partners. 2021. Navigating ESG in China, <https://arisaig.com/wp-content/uploads/2021/07/Arisaig-Partners-Navigating-ESG-in-China-June-2021.pdf>

³ Hasmath, Reza. 2020. "New ESG practices in China and its implications for foreign actors" *Georgetown Journal of International Affairs*.

⁴ Council for Development of Cambodia, <http://www.cambodiainvestment.gov.kh/investors-information/environment-protection.html>

⁵ Khmer Times, Lower Sesan II hydropower plant protects the environment and provides clean energy in Cambodia, 18 August 2021, <https://www.khmertimeskh.com/50918128/lower-sesan-ii-hydropower-plant-protects-the-environment-and-provides-clean-energy-in-cambodia/>

⁶ Human Rights Watch, "Under Water: Human Rights Impacts of a China Belt and Road Project in Cambodia", 10 August 2020, <https://www.hrw.org/report/2021/08/10/underwater/human-rights-impacts-china-belt-and-road-project-cambodia>

⁷ Economic Research Institute for ASEAN and East Asia (2019), "Cambodia Basic Energy Plan", Jakarta: ERIA.

⁸ Asian Vision Institute, Sustainability report of Huaneng's Lower Sesan II, <https://www.asianvision.org/archives/publications/csr-report-china-huaneng>

⁹ Field interview by the research team from the Asian Vision Institute on 15 September 2020.

¹⁰ Chheang, Vannarith (2021) BRI projects in Cambodia and Laos roll on despite Covid-19. ISEAS Perspective 2021/99, <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2021-99-bri-projects-in-cambodia-and-laos-roll-on-despite-covid-19-by-vannarith-chheang/>

¹¹ China Road and Bridge Corporation, <https://www.crbc.com/site/crbcEN/ResponsibilityManagement/index.html?id=629efe42-9861-45ae-ac93-11951d80ae22>

¹² China Daily, “Yunnan Construction and Investment Holding Group”, 21 June 2019, <https://govt.chinadaily.com.cn/s/201906/21/WS5d0c3d23498e12256565e4ed/yunnan-construction-and-investment-holding-group.html>

¹³ Chheang, Vannarith (2021) BRI projects in Cambodia and Laos roll on despite Covid-19. ISEAS Perspective 2021/99, <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2021-99-bri-projects-in-cambodia-and-laos-roll-on-despite-covid-19-by-vannarith-chheang/>

¹⁴ Field interview by the research team from the Asian Vision Institute, 22 September 2021.

¹⁵ Field interview by the research team from the Asian Vision Institute, 22 September 2021.

¹⁶ Field interview by the research team from the Asian Vision Institute, 8 September 2022.

¹⁷ Bank of China, BOC Hong Kong (Holdings Limited Corporate Social Responsibility Policy).

¹⁸ Field interview by the research team from the Asian Vision Institute, 8 September 2022.

<p>ISEAS Perspective is published electronically by: ISEAS - Yusof Ishak Institute</p> <p>30 Heng Mui Keng Terrace Singapore 119614 Main Tel: (65) 6778 0955 Main Fax: (65) 6778 1735</p> <p>Get Involved with ISEAS. Please click here: https://www.iseas.edu.sg/support</p>	<p>ISEAS - Yusof Ishak Institute accepts no responsibility for facts presented and views expressed.</p> <p>Responsibility rests exclusively with the individual author or authors. No part of this publication may be reproduced in any form without permission.</p> <p>© Copyright is held by the author or authors of each article.</p>	<p>Editorial Chairman: Choi Shing Kwok</p> <p>Editorial Advisor: Tan Chin Tiong</p> <p>Managing Editor: Ooi Kee Beng</p> <p>Editors: William Choong, Lee Poh Onn, Lee Sue-Ann, and Ng Kah Meng</p> <p>Comments are welcome and may be sent to the author(s).</p>
--	---	--