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GLOBAL CORPORATE SOCIAL RESPONSIBILITY FORUM: CHINA

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- I would like to thank China Newsweek, under the guidance of the Overseas Chinese Affairs Office of the State Council and the China News Service, for inviting me to speak at this Forum. I would also like to thank our master of ceremonies, Director Lin Yifu. I would add that I am especially honoured to appear alongside Minister of Health Gao Qiang, with whose ministry the OECD is pursuing active co-operation, and other leading Chinese officials, together with Franny Léautier of the World Bank and leaders of both business and NGOs.

Origins of the OECD

- As Secretary-General of the Organisation for Economic Co-operation and Development, I should perhaps begin by saying a few words about the Organisation that I head. The OECD is often referred to as the only living legacy of the Marshall Plan, having evolved from the Organisation for European Economic Co-operation, the OEEC, which was created to administer the Marshall Plan in 1948.

- As historians among you will know, the Marshall Plan was the cradle of economic development and security in post-war Europe. It established within a continent that had been ravaged by bloody conflict, both economic interdependence and security. This experience demonstrates that economic development and security have to go hand in hand, and that one cannot exist without the other.
- A great deal of physical infrastructure was created under the Marshall Plan, through investments of approximately 14 billion dollars, made to rebuilding modern Europe in the wake of the devastation of World War II. But too many people make an error in thinking that the Marshall Plan was primarily about money. In fact, there was just as much financial assistance was given to Europe before the Marshall Plan. The genius of the Marshall Plan derived from the foresight of those who realised that while lasting peace, prosperity and security can be defended through military strength, they can only be secured through economic development and co-operation, indeed through economic interdependence brought about by institutional frameworks, not bricks and mortar. And the remarkable success of the Marshall Plan is clear for all to see: instead of exchanging bombs and bullets, Europeans now exchange goods, services and people.
- This is the real legacy of the Marshall Plan, and it must be carried forward to future generations all over the planet. With the right combination of policies and international co-operation nations can build successful and secure economies and societies. Indeed, in recent years, we have seen examples inspired in part by the Marshall Plan. We have seen growing regional co-operation in Asia and the Pacific, in Southeast Asia, and in North and South America. We have seen the nations of Africa beginning to take control of their own destiny in forming the New Economic Partnership for African Development (NEPAD). We have the Stability Pact for South East Europe, where the OECD is an active partner, and I have just been in Jordan where Middle East and North African countries and the OECD have launched a regional investment initiative known as the MENA/OECD Investment Program.

What the OECD is and what it does

- The OECD has a mandate to promote economic growth and development throughout the world. It has 30 members and engagements with over 70 economies. The OECD promotes market-based economies and open, rules-based and non-discriminatory trading and financial systems, supported by good governance, or in other words, effective administration by a government accountable to its people.
- OECD work, which covers just about every government policy area, except defence, falls into 4 broad categories. I would describe these as follows: firstly, we develop guidelines for economic or business activity which are agreed by a consensus among our membership. There are many examples and in a moment I will discuss in more detail the one which deals with responsible business conduct, namely the OECD Guidelines for Multinational Enterprises.
- The second area of work addresses objectives shared by critical mass of members;; examples include some of the work I have already mentioned, such as OECD support for the Stability Pact for South-Eastern Europe, the MENA project to contribute to Middle East peace and stability, and our work in Africa with NEPAD.
- The third area of work is to help members and non-OECD economies meet domestic challenges through international comparisons of best practice, supported by in-depth analysis based on reliable data to develop national policies. Examples include our work on health systems, environment, education, pension plans, innovations policies and so on.
- Finally, the OECD also has the capacity to identify important challenges that lie beyond the horizon but for which governments must start preparing in the near future. In this category, we examine issues such as the energy mix in 30 years time, the commercialisation of space and the potential and risks of nano technology and so on.
- Before I discuss OECD's guidelines contributing to responsible business conduct in a moment, let me first say a word about the increasing work we carry out here in China with our Chinese partners.

OECD's co-operation with China

- The OECD's work with China is of crucial importance to our Organisation, as China is a key player in the world economy.
- In fact, China and the OECD have been co-operating for many years across just about the whole range of the policy areas we cover, from economic surveillance to public and corporate governance, from agriculture and trade to taxation and labour market issues; from science, technology and education to anti-corruption and financial system reform. In just this last year, we published our first ever Economic Survey of China, an agricultural review as well as a major report on Governance in China, all prepared in close collaboration between OECD experts and the Chinese Authorities. And, amongst other things, we are now embarking on an environmental review of China, a regulatory reform review and an innovation review.
- China is also taking part directly in the work of the OECD. China participates as an observer in two OECD Committees: the Committee on Science and Technology Policy and the Committee on Fiscal Affairs. We are pleased to note China's intention to co-operate directly in other committees.
- China-OECD co-operation on investment policies has been continuing since 1995, leading to the 2003 investment policy review of China and subsequent follow-up activities. The 2006 investment policy review of China is about to be published. We will launch the publication here in Beijing in April this year.
- Turning to the specific subject of this forum, namely global corporate social responsibility, the OECD is playing a central role.
- Corporate social responsibility or CSR as it is known is not a term I like to use at the OECD. If you do a Google search you will find that there are no less than 38 or 39 million entries for corporate social responsibility.

- At the OECD we prefer to talk about “responsible business conduct”. The difference? The reality is that business is conducted by individuals within corporations, not by the corporations themselves, and it is people who choose the legal framework in which they wish to undertake their business whether it be through partnerships, sole proprietorships or, as is most often the case, through corporations with limited liability. The exceptions to creating corporations tend to be found among some professional service firms such as lawyers, auditors, etc. I will return to the role of individuals.
- The OECD first established and published guidelines for the behaviour of multinational enterprises in 1976. These enjoyed a moderately high profile for several years but, as far as I can determine, had little impact during the latter part of the 1980s and 1990s.
- However, with the phenomenon of globalisation and the growth and expansion of enterprises with a global reach, the importance of responsible business conduct emerged as a major challenge. By 1999 we had completed major revisions to the guidelines. They had been strengthened and reinforced with mechanisms designed to expose unethical conduct and to subject offenders to pressures to conform to the agreed standards.
- These guidelines now constitute recommendations by governments on business conduct, covering such areas as combating corruption, disclosure, the environment, science and technology, competition, taxation, human rights and labour relations.
- Thirty-nine governments – representing the 30 OECD members and nine non-OECD economies – have agreed to these guidelines as part of a broader, balanced package of rights and commitments called the “OECD Declaration on International Investment”, which includes the principle of non-discriminatory treatment of foreign-controlled enterprises.
- The objectives of the OECD Guidelines are “to strengthen the basis of mutual confidence between enterprises and the societies in which they operate; to help

improve the foreign investment climate; and to enhance the contribution to sustainable development made by multinational enterprises.”

Responsible Business Conduct (RBC) benefits China

- As this high-profile meeting attests, I am very pleased to note that the Chinese government is giving increasing attention to promoting RBC.
- Indeed, as we have seen, public opinion in China is increasingly supportive of more demanding RBC standards. Good RBC performance by all enterprises, both domestic and foreign-owned, brings huge benefits to Chinese workers, consumers and citizens, for example more disclosure of company information, good environmental management and core labour standards.
- RBC also benefits Chinese business in two ways:
 - First, Chinese companies are increasingly “going global”. To operate abroad, they need to understand the RBC standards adopted in other countries. Subscribing to international “good RBC practices” will open doors for Chinese companies, as host societies will have increased confidence and trust in these companies, thereby making it easier for them to form business alliances with other major companies.
 - Second, good RBC performance can contribute to a company’s long-term growth and profitability. For example, it can make it easier to compete for capital and labour, it can boost productivity and it allows companies to minimise reputational risk and damage to brands.
- Finally, I would note that China has made rapid progress in establishing a market enterprise system. Encouraging good RBC performance is a logical next step.

OECD findings on Chinese companies

- I would now like to say a few words about our findings about Chinese companies. OECD surveys of international business practices show that Chinese multinationals have made

some progress in aligning their management practices with global trends. For example, we have noted the rapid uptake by Chinese companies of international environmental management systems. However, we consider that there remains much room for improvement, as is evident from the Chinese media. In this regard, we believe that the OECD's Guidelines for Multinational Enterprises warrant careful consideration by the Chinese Government and corporations.

The contribution of the OECD Guidelines for Multinational Enterprises

- One of the factors that makes the Guidelines unique is the way they are implemented. Guidelines implementation is mainly the responsibility of so-called National Contact Points. These are government offices that are charged with promoting observance of the Guidelines among “their” companies, regardless of where they operate.
- Guidelines implementation involves a mediation and conciliation facility that considers whether or not a particular investment project adheres to the Guidelines recommendations. This facility involves voluntary discussions between governments and companies on concrete ethics issues that arise in connection with international investment projects. This facility has been used more than seventy times since its creation in June 2000 to explore many questions – for example, a Korean company's labour management practices in a Guatemalan export processing zones and a Canadian company's resettlement of people in the vicinity of a mine in the Zambian copper belt. This dialogue can reassure companies that what they are doing meets international standards. Or they can help companies identify areas where they can improve. The OECD views this as a positive and pragmatic service that is both useful to businesses and enhances the contribution of international investment to host societies.

Moving co-operation ahead

- The OECD is happy to co-operate with China in developing good RBC standards and sharing experiences on OECD and Chinese government approaches to RBC. China officially adheres to 10 of the 14 United Nations standards cited in the Guidelines. On 13

January 2006, China ratified the UN Convention against Corruption. All of this indicates that our RBC discussions can build upon a core of shared values.

- Business, of course, is not alone in determining whether a country reaps the full benefits of investment. Governments are also important and RBC goes hand in hand with government responsibility. A good regulatory environment is needed to facilitate responsible business behaviour. China, like other developing countries, can benefit from the OECD *Policy Framework for Investment*, which aims to help governments create an environment that is attractive to domestic and foreign investors and that enhances the benefits of investment to society. And China's participation in the PFI Task Force is an important part of ongoing China-OECD co-operation.

Whether we speak of business, governments or NGOs, we are addressing ourselves to individuals. Individuals in a position to influence the behavior of the entities they direct, or work with or work for.

I have noticed in my relatively long professional life that some individuals are capable of acting in the name of a corporation in ways that they would never contemplate doing as individuals on their own account. Sometimes this even includes criminal behavior, which they would never condone personally, except as promoting the interests of their corporations and improving in theory the lot of their shareholders.

Am I wrong in this? I do not think so, but I have never conducted a serious investigation of the issue but perhaps others have.

This brings me to the conclusion that individuals must be directly involved and personally accountable for RBC. Otherwise it is likely to exist only in resounding declarations in Annual Reports and other corporate public documents. This may be important but it is not where the answer lies to ensuring RBC. Boards of Directors, Management and employees must all be aware of and commit themselves to the principles found in the MNE Guidelines. The Guidelines should be taught in law schools and business schools. They should be widely disseminated and discussed and debated at conventions of lawyers, auditors and similar professional bodies in all countries.

In other words, they must become part of the international business culture. In pursuing responsible business conduct, people should be guided by the principle of the “golden rule”.

“Do not do unto others that which you would not want done unto you”.

This doctrine indeed finds itself well imbedded in the philosophies of all major religions including Confucius, Islam, Buddhism and Christianity.

Look at it this way: would you pollute rivers if you knew that in turn your rivers would be polluted? Would you deplete your forests and fisheries if you knew that in turn yours would be depleted? Would you render the air unsuitable to breathe if the same were to be done to your atmosphere?

Individuals with daily lives to lead, children to rear and a future to look forward to for their communities must each take on the challenge of RBC.

- In closing, I would just reiterate that the OECD looks forward to expanding its work with China in sharing experience on RBC standards and practices in the years to come. Later this year, the OECD will hold a meeting with Chinese representatives to share Chinese and OECD Member country government approaches to RBC. This will provide a firm foundation for follow-up activities in specific areas of RBC.