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Certifying China

The Rise and Limits of Transnational Sustainability Governance in Emerging Economies

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2 Between Markets and States: Grounding Transnational Governance in China

There is little doubt that emerging economies present a different environment than do developed markets for transnational governance. The unique on-the-ground functioning of the relevant transnational rules and organizations requires us to investigate specific governance processes in the host country. Even among emerging economies, China seems to be an anomaly due to its size and political system. These characteristics make China a new laboratory for understanding the role of transnational governance in domestic settings and the interaction between public and private authorities. In this chapter, I present an explanatory framework for the rise of transnational governance in China. It accounts for the different causal mechanisms through which relevant stakeholders and their interactions might drive businesses to adopt transnational rules. I argue that while global markets are a key channel for bringing transnational governance into China, domestic state actors, by shaping policy and market environments in the country, play a more critical role in the dissemination of private rules. To substantiate this argument, I unpack the interests of actors in the Chinese state and the ways in which they exert influence.

Understood as private institutions operating across borders, transnational governance creates order and reduces uncertainty via rules and norms. But this definition has a political dimension, as institutions are purposive artifacts that serve the interest of certain groups (North 1990; Bates 2014). For this reason, we must explain the rise of transnational governance or the lack thereof through the perspectives of the relevant stakeholders. When a governance program is introduced to a new territory, it always interacts with actors embedded in the relevant domestic sociopolitical context. In this process, the domestic context may condition actors' abilities and willingness to acquire information and make behavioral or normative changes. At the same time, we cannot overestimate the power of the context, as actors' interests are gradually (re)shaped through dynamic interaction with others. Over time, transnational governance could also build constituencies that may provide the impetus for its further spread. Therefore, to account for the roles of different stakeholders in driving (or preventing) the spread of transnational governance, I consider how the Chinese context may influence their interactions as well as how these actors may exercise agency within this context.

To introduce my framework, I begin with a discussion of two major characteristics of China's sustainability governance system: the lack of NGO campaigns and the limited influence of consumers. These characteristics determine who might influence the rise and spread of transnational governance in the context of China's political economy and how they might exert influence. I then draw on the literatures on transnational governance and Chinese politics to identify the major stakeholders that may be involved in the process of introducing and promoting transnational governance in China, such as foreign exporters and investors, transnational governance programs, and domestic state actors. When considering each type of stakeholder, I hypothesize specific mechanisms through which actors can influence the adoption of transnational rules by Chinese companies. Additionally, the structure of domestic industry could pose constraints on the rise of transnational governance. For this reason, I consider how specific structural features, such as supply chain types, may affect the influence of different stakeholders on businesses' willingness to adopt new rules. This factor helps us better understand the challenges that transnational governance faces in becoming mainstream in the Chinese market.

An important mechanism in this framework is the interaction between transnational governance and the Chinese state. To understand the dynamics of such interactions, I look at the bureaucratic structures in China to identify who in the state bureaucracy might play an important role in influencing the operation of transnational governance. Based on insights drawn from scholarship on Chinese politics, I unpack the incentives that relevant actors potentially have when providing support for transnational governance. Taking into account the interaction between state and non-state actors, I anticipate that the combination of two conditions—engagement of transnational actors and domestic regulatory structure—shapes the Chinese state's intervention in transnational governance.

By putting these elements together, this analytical framework offers a comprehensive understanding about the initial entry and subsequent growth of transnational governance in China. It can also shed light on the dynamic interactions between transnational and domestic actors in the context of other emerging economies. In chapter 6, I discuss how the inferences drawn here can be applied to other countries.

2.1 Political Economy of Sustainability Governance in China

Globalization and the consequent diffusion of rules and norms do not happen automatically. To introduce new institutions, policies, or practices to a place, transnational actors follow specific pathways, and domestic political and economic environments can affect the feasibility of these pathways (Bernstein and Cashore 2012). In other words, transnational governance does not happen in a regulatory void but is always grounded in sites that are "crowded with different actors, agendas, and rules" (Bartley 2018: 44). Therefore, China provides a unique context for the operation of transnational sustainability governance, due to its political system and institutionalized governance processes (Young et al. 2015; Zhao et al. 2020). Two characteristics are especially noteworthy.

The first is the lack of public campaigns—especially boycott campaigns—under Chinese authoritarianism. In China's environmental governance landscape, the state-society relationship has quickly evolved over the past two decades. In this area, research has shown cases where increasing participation by NGOs and citizens in policymaking processes successfully shifted government policies (Johnson 2010; Zhan and Tang 2013; Fedorenko and Sun 2016). Such changes have happened in the context of legislative reforms of public participation and consultation in China's environmental policy, which have brought greater opportunities for civil society groups to engage in policy advocacy. The Chinese government also adopted the Environmental Information Disclosure Measures in 2008, which enabled many non-state actors, including NGOs, media, and the public, to push for information disclosure and transparency in environmental governance (Zhang, Mol, and Li 2016). From this perspective, some scholars have anticipated the rise of new modes of environmental governance in China, including information-based certification led by non-state actors (Mol and Carter 2006).

However, the increasing public participation and the empowerment of NGOs do not mean that the Chinese government has relinquished control over civil society. Despite the involvement of non-state actors in China's environmental governance, these actors are still under close scrutiny by the country's party-state (van Rooij, Stern, and Fürst 2016). As such, civil society groups in China remain "embedded" in the state, so that their predominant strategy is to use their networks with government officials to exert influence on policies (Ho 2007; Teets 2017). In this context, "name and shame" campaigns or boycotts have not yet become a popular form of advocacy. For example, when NGOs in China directly asked companies to disclose pollution information according to government regulations, their requests were met with little to no reaction (Tan 2014). This situation contrasts with Western democracies, where NGO activism has been a key driver behind the rise of transnational governance, especially for many environmental and labor certification schemes (Gereffi, Garcia-Johnson, and Sasser 2001; Sasser et al. 2006; Dauvergne and LeBaron 2014). Therefore, in China's sociopolitical context, the influence of NGOs on the spread of transnational sustainability governance is unlikely to be exerted directly through public campaigns against firms.

The second (and related) characteristic is that in a large, middle-income economy like China, consumers' opinions on sustainable consumption remain indecisive and therefore can hardly become a key driver of any new rules or practices. Over the past two decades, the norm of ethical and responsible consumption quickly emerged and went global, even being reflected in the 2030 Agenda for Sustainable Development.[1] This new norm led to political consumerism in the form of boycotting (i.e., refusing to buy from irresponsible companies) and buycotting (i.e., buying from companies acting responsibly) (Barnett et al. 2011; Stolle and Micheletti 2013). As a result, even if individual consumers do not always show strong willingness to pay for sustainable products, as an imagined collective, consumers have exerted—in a latent way—an important influence on the decision-making processes of businesses concerning the adoption of new rules or higher standards (Bullock and van derVen 2020). But when looking more closely at the movement of political consumerism, one realizes that it flourishes primarily in the Northern hemisphere, especially in postindustrial societies (Boström, Micheletti, and Oosterveer 2019). As a result, similar dynamics may not have appeared yet in emerging economies.

Indeed, despite the presence of a giant middle class and its growing consumption in China, the role of Chinese consumers in the country's sustainability transition remains uncertain. An important reason for such uncertainty is that middle-class consumers still may be price sensitive and unwilling to pay for certified products (Guarín and Knorringa 2014; Y. Li et al. 2016). At the same time, most consumers in China are unaware of the impacts of their consumption behavior (Fesenfeld et al. 2020; Fesenfeld et al. 2021). In addition, the issue of the credibility of standards and eco-labels is salient in China and may reduce consumers' likelihood of buycotting (Cai, Xie, and Aguilar 2017). All these factors make it very difficult to predict whether Chinese consumers will be politically motivated in their everyday choices and opt for more environmentally friendly products (Lei, Liu, and Oosterveer 2019). In this context, the pressure of consumers—even as an imagined collective—is unlikely to enter the equation when businesses consider the adoption of better practices.

Taken together, the two characteristics discussed above provide important background information on the landscape of sustainability governance in China. With respect to sustainable consumption, they can also interact with each other to constitute a vicious circle that may prevent the rise of eco-certification in the market. More specifically, Chinese consumers' unwillingness to pay for certified products is likely to be reinforced by the lack of NGOs' boycott campaigns, because consumers have little chance of receiving information on the negative consequences of their consumption behaviors. Due to these unfavorable conditions, many observers are quite pessimistic about the prospects of transnational sustainability governance, including eco-certification programs, in China (Bartley et al. 2015). Nonetheless, these structural factors do not necessarily indicate the absence of opportunities for transnational sustainability governance in the Chinese market and society. Instead, other mechanisms may exist in China for transnational programs making contributions to sustainable production and consumption. For instance, taking into account the increasing importance of non-state actors in China's environmental governance, we can expect NGOs to use different strategies in China than in developed markets for promoting eco-certification. To understand these opportunities for transnational governance to introduce changes in China, we must turn to the market and political dynamics of the country.

2.2 Introducing an Explanatory Framework

Transnational governance programs are brought to a new country when local businesses accept the relevant rules made by non-state actors operating across national borders. This process is usually triggered by some external stakeholders providing information and putting pressure on businesses (Chrun, Dolšak, and Prakash 2016; Lambin and Thorlakson 2018).[2] Such interactions among actors are especially important in the diffusion of transnational rules from the Global North to emerging economies in which local businesses were not involved in the creation of relevant programs and standards. Therefore, to understand the entry and expansion of transnational governance in China, we need to identify which stakeholders can influence the decisions of businesses and the mechanisms through which they exert influence. I introduce an explanatory framework here and discuss its key elements in detail in the following sections.

As shown in figure 2.1, my framework puts forward three broad types of stakeholders and conceptualizes the ways in which they shape businesses' incentives to support transnational sustainability governance: transnational market agents, transnational governance programs and their NGO supporters, and domestic state or quasi-state actors. These stakeholders differ in the fields in which they operate. Transnational market agents concerned about sustainability issues are buyers based in Northern markets or multinational companies headquartered in developed countries; private governance (certification) programs and the NGOs supporting them are transnational organizations that have local chapters in China; and actors in the Chinese state bureaucracy work at the national or local level.

These stakeholders also vary in their mechanisms of influence due to the different types of authority they have. Through this lens, we can classify the influence of external stakeholders according to the two broad types of motivation they bring to businesses: material and normative concerns.[3] The power of foreign buyers and multinational corporations in global supply chains is based on their ability to control market access (Cutler, Haufler, and Porter 1999; Haufler 2001). For environmental NGOs and certification programs having the status of nonprofit organizations, their influence is mainly derived from their moral high ground on sustainability issues; as a result, businesses adopt relevant rules not only for concerns about potential economic loss but also for normative reasons (Hall and Biersteker 2002;

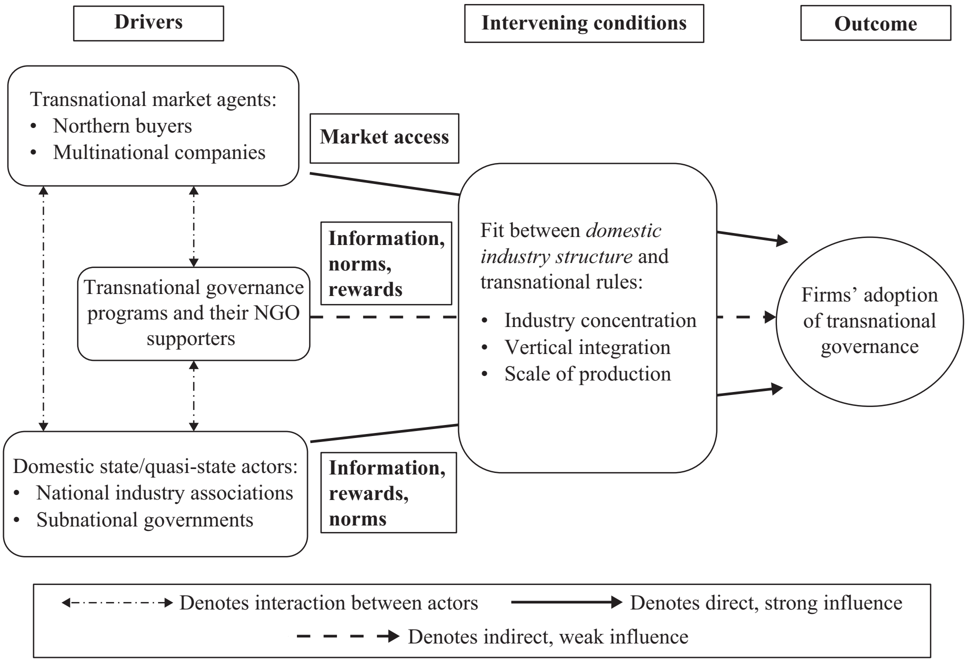

Figure 2.1
A framework explaining the rise of transnational governance in China.

Baur and Palazzo 2011). Both material and normative concerns can exist when state actors exert influence: The pursuit of material benefits leads businesses to change their policies and behavior to avoid further regulations or to gain government support, while the normative obligations play a role when state actors motivate firms through established norms (Harrison 1998; Pattberg 2005b). In the real world, it is always difficult to disentangle these two types of motivation. But material concerns are generally expected to dominate in the initial rise and spread of any new governance systems before they become mainstream in the market (Cashore 2002; Bernstein and Cashore 2007).

A related but more intuitive way to understand different mechanisms through which stakeholders exert their influence is to consider the instruments they use. To distinguish among these mechanisms, we can draw on Vedung's (1998) threefold typology of public policy instruments: regulations (sticks), economic means (carrots), and information (sermons). These instruments are based on different sources of power that organizations use to control or influence others' behavior. Regulations are derived from coercion or physical sanctions; economic means refer to the use of remuneration or deprivation of material interests; and information usually relies—although not always—on moral appeals.[4] While Vedung's typology is used to understand public policy, it also can be applied to instruments that different actors may use to promote private governance systems, given the authority of many non-state actors and their interactions with the state (Hall and Biersteker 2002; Bernstein and Cashore 2007; Green 2014; Renckens 2020).

As transnational governance programs do not derive their authority from state actors, the state generally does not use its coercive power to enforce the relevant rules.[5] Instead, coercion or sanctions for the adoption of transnational governance occur through market mechanisms, such as by granting or blocking market access. This mechanism is especially salient in the context of unequal global commodity trade between Northern buyers and Southern producers, where the former asymmetrically holds market power over the latter (Talbot 2002; Bloomfield 2020). At the same time, through information campaigns, civil society groups can leverage their moral authority to induce firms to adopt new standards or practices. In contrast, without coercion, states still have other means to influence businesses, such as economic rewards, in-kind contributions, and information sharing and knowledge transfer. Because they do not preclude any options, these instruments can be understood as "nudges"—a concept in behavioral economics referring to interventions that can influence people's behavior and decision making without limiting their existing choices—as they can alter businesses' behavior in a more subtle way than hard regulations (Thaler and Sunstein 2009; Sunstein 2014).[6]

All in all, the three groups of stakeholders are likely to follow different routes to introduce and promote transnational governance in China. Yet not all stakeholders were familiar with the relevant transnational programs when they first entered the Chinese market. Therefore, the interactions among different stakeholders could shape their interests and could change, over time, the course of the spread of new standards and practices (see the double-headed arrows with a dash-dotted line in figure 2.1). Such interaction would be especially critical for domestic state actors if transnational actors, including NGOs and market agents, made them aware of the gains and losses that transnational governance might bring. In this process, actors' strategic behaviors have important implications for the rise of transnational governance, or the lack thereof, in a new context.

In addition to the influence of external stakeholders, each industry may face structural constraints when adopting new rules. Many studies have noted the distributional effects of transnational governance, meaning that often it does not provide a level playing field for all actors in the market (Cashore, Auld, and Newsome 2004; Fuchs and Kalfagianni 2010; E. Bennett 2017; Glasbergen 2018). In other words, some types of industries and firms can more easily adopt the standards and practices required by transnational governance programs than others can. Hence, we also need to consider how these structural features of domestic industry condition the spread of transnational governance in China. In sections 2.3–2.7, I form specific hypotheses on the influences of different factors.

2.3 The Power of Transnational Market Agents

To begin with, market transactions are often the most direct mechanism through which the authority of transnational governance programs is grounded. Despite their seemingly "voluntary" nature, governance tools like eco-certification could be imposed on firms and producers by other market actors due to unequal relations among actors along the supply chain (Busch 2014; Lund-Thomsen and Lindgreen 2014). This mechanism is common when market transactions cross national borders and lead firms, based in developed markets, ask their suppliers in the Global South to follow some environmental and social standards. Since the 1980s, the supply chain revolution under globalization has reconfigured the structure of many industries to form "global value chains," linking lead firms in affluent countries with producers in developing countries (Gereffi, Humphrey, and Sturgeon 2005; Gibbon, Bair, and Ponte 2008). These global value chains also connect big brands and retailers to sites of environmental degradation or labor exploitation in countries where domestic regulations are weak. To avoid being associated with these sustainability issues and therefore protect their reputations, lead firms in global value chains, such as IKEA and Walmart, began to use production standards to self-regulate their supply chains (Gereffi, Garcia-Johnson, and Sasser 2001; Conroy 2007; Vandenbergh 2007). In such situations, Southern producers do not voluntarily choose to become certified;

instead, the market power of lead firms make these standards "*de facto* obligatory for access to important markets" (Henson and Humphrey 2010: 1631).

Over the past two decades, an increasing number of lead firms have embraced transnational sustainability governance after they realized the benefits of corporate sustainability for reducing risks and building reputation and competitive advantages (Esty and Winston 2006; Dauvergne and Lister 2013). Almost all of them are based in developed countries, where consumer demand for sustainable products first emerged. In the meantime, China became well integrated into many global commodity chains as a major producer due to its low labor costs and growing production and processing capabilities (Roth et al. 2008; Veeck 2008). Thus, Chinese companies supplying these foreign companies may be compelled to adopt relevant transnational rules; otherwise, they would lose these customers.

Two channels exist for Northern-based market actors to introduce transnational sustainability governance in China. The first is international trade, namely, the export of products to foreign markets where buyers demand certified products. This channel generates the so-called "California effect" identified by Vogel (1995), which suggests that standards used by firms in exporting countries are ratcheted up to match the levels in their trading partners. This "trading up" phenomenon is common when producers in the Global South export to developed countries, and it has actually occurred in the diffusion of many sustainability governance programs, including the International Organization for Standardization (ISO) 14001 and the Forest Stewardship Council (FSC) (Prakash and Potoski 2006b; Perkins and Neumayer 2010; Moeltner and Kooten 2003).

Previous research on China has also shown that transnational standards and certification have often been used by export-oriented Chinese firms as a signal of good sustainability performance to their customers in the Global North (Christmann and Taylor 2001; G. Qi et al. 2011; McGuire 2014). More importantly, in several agri-food supply chains, some transnational standards or certification programs have already become a de facto condition for access to many developed markets (Henson and Humphrey 2010). In other words, they are compulsory in a commercial sense and serve as a trade barrier for producers based in the Global South (Jaffee and Henson 2004). In these cases, to enter certain markets, Chinese companies must comply with transnational governance even if the relevant standards are not required by the governments of importing countries.

It worth noting that the destination of trade flows is critical to the validity of this channel of influence. Compared to North-South trade, South-South trade is unlikely to drive the adoption of higher sustainability standards in Southern producer countries (Schleifer 2016; Adolph, Quince, and Prakash 2017). Therefore, only export to Northern markets, especially Europe and North America, is likely to drive the spread of transnational sustainability governance in China.

Hypothesis 1 Export to Northern markets leads Chinese firms to accept transnational governance.

This export-based channel yields two observable implications. At the sectoral level, the degree of dependence on Northern markets is expected to determine to what extent Chinese businesses are under pressure to adopt eco-certification requirements. At the firm level, both those exporting their products and those planning to enter lucrative Northern markets are likely to get certified.

Observable implication 1a Sectors with a larger proportion of exports to developed countries have higher rates of certified products.

Observable implication 1b Firms that export or are willing to export products to Northern markets are more likely to adopt transnational certification.

The second channel for transnational market agents exerting their influence is foreign direct investment (FDI), namely, when Northern-based lead firms form subsidiaries or joint ventures in China. Like international trade, FDI can introduce better environmental and social practices to firms in emerging economies (Wheeler 2001; Mosley 2010; Stalley 2010). For instance, Prakash and Potoski (2007a) have found that FDI from developed to developing countries drove the global diffusion of ISO 14001 certification—a phenomenon termed "investing up." Garcia-Johnson's (2000) in-depth analysis has also revealed that US investors were eager to push their subsidiaries in Latin America to ratchet up environmental practices beyond local regulations. Similarly, firm-level analysis on China has shown that Chinese firms having multinational ownership were more likely to adopt the ISO 14001 certification (Christmann and Taylor 2001).

Two dynamics may explain the FDI's influence on the spread of transnational governance in China. First, multinational corporations based in the Global North may make commitments to sustainable sourcing in response to activist campaigns, and accordingly, introduce new standards and practices in their global operations (O'Rourke 2006; Pemberton 2011; Bloomfield 2017a). At the same time, these companies may also proactively use transnational sustainability governance as a tool to maximize profits by maintaining a long-term supply of raw materials, achieving efficiency gains, and pursuing first-mover advantage (Vandenbergh 2007; Dauvergne and Lister 2013; Dauvergne 2016). A good example is the global agri-food sector, where many multinational traders, manufacturers, and retailers have made commitments to sourcing only from certified producers (Rueda, Garrett, and Lambin 2017).

Hence, foreign-invested enterprises in China are likely to be more receptive to transnational sustainability governance due to the policies made by their headquarters. For instance, IKEA was among the first actors to introduce the FSC in China and even helped their Chinese suppliers to comply with relevant standards (Ivarsson and Alvstam 2010; Bartley 2018). In such cases, multinational companies require their subsidiaries and suppliers in China to adopt new standards and practices. To clarify, the influence of FDI does not necessarily involve export, as multinational companies may set requirements on their subsidiaries and suppliers regardless of product destinations.[7]

Hypothesis 2 Investment by Northern-based multinational corporations drives the spread of transnational governance in China.

Considering this channel of FDI at the sectoral and firm levels, I draw the following observable implications:

Observable implication 2a The more dominant the position of Northern-based multinational corporations in a supply chain, the higher the rate of certification.

Observable implication 2b Subsidiaries, joint ventures, and suppliers of Northern-based multinational corporations in China are more likely to adopt transnational certification than domestic firms are.

2.4 Activities of Transnational Governance Programs

In addition to being introduced through market transactions, transnational governance programs are agents themselves and can act, often with NGOs sponsoring or supporting them, to directly influence businesses. Through outreach activities, such as awareness raising campaigns, these actors provide new information to firms on issues related to the latter's business and even make moral appeals to pressure firms into changing their behavior

(Cashore 2002; Bartley 2007; Auld 2014; Bloomfield 2017b). For example, certification programs and their NGO supporters can form buyer groups that commit to giving certified producers preferential market access (Cashore, Auld, and Newsome 2004) or organize consumer campaigns directly targeting particular companies (Sasser et al. 2006; Dauvergne 2017). In addition to information campaigns, certification programs and the NGOs supporting them can organize educational events and training sessions and can fund capacity-building projects to help firms adopt relevant standards (Manning et al. 2012; Glasbergen and Schouten 2015). In fact, research has shown that this mechanism of awareness raising and engagement is likely to play an important role in introducing Northern-based governance programs to the Global South, where local stakeholders often lack awareness and knowledge of relevant issues and governance tools (Espach 2009; Peña 2016).

Yet the direct influence of these civil society organizations tends to be weak in the Chinese context. Part of the reason is that civil society groups alone are unable to ensure economic gains or better market access for producers in the Global South (Loconto and Dankers 2014; Carlson and Palmer 2016; DeFries et al. 2017). Unless buyers make contractual commitments, actors in the upstream part of the supply chain often cannot see the tangible benefits of adopting higher standards. More importantly, as discussed at the beginning of this chapter, China does not have a permissive environment for NGOs autonomously launching boycott campaigns. Therefore, the normative pressure that transnational governance programs and their NGO supporters can bring to bear on firms in China is weak at best (as denoted by the dashed arrow in figure 2.1).[8]

That said, in the Chinese context, transnational governance programs and their NGO supporters may trigger policy and behavioral changes of businesses by interacting with some influential stakeholders, including Northern-based multinational companies and domestic state agencies. For instance, certification programs and their partner NGOs could push for changes in the global sourcing policies of multinational brands through campaigns in developed markets or could lobby host governments for public policy support for their programs (Pickles, Barrientos, and Knorringa 2016; Schleifer and Sun 2018; Renckens 2020). The latter strategy could be particularly important in China, as NGOs aligning their issue frames with the interest and discourse of the central state are more likely to influence policy in the country (F. Zeng, Dai, and Javed 2019). For this reason, to understand the influence of transnational governance programs in China, we need to pay significant attention to their interactions with other stakeholders.

The influence of transnational governance programs on the spread of relevant rules and standards often varies according to their strategy and capability at the domestic or local level. I propose two interrelated indicators to capture the strength of such influence. First, the proactivity of the communication strategy in China adopted by a transnational program matters. This indicator reflects on the willingness of each program to increase its presence in China. The more proactive a program's strategy is, the more likely it can reach more businesses and other influential stakeholders in a new market (Gulbrandsen 2010). Second, the human and financial resources that a transnational governance program devotes to a country determine the capability of its local chapter to exert influence or the so-called "local organizational capacity" (Espach 2009). Taking both indicators into account, I expect the following hypothesis.

Hypothesis 3 Proactive communication strategies and a strong local capacity of transnational governance programs contribute to the spread of their rules in China.

This hypothesis can be observed by comparing different programs in the same sector.

Observable implication 3 In the same sector, the proportion of certified products is higher for transnational programs having more proactive communication strategies and more financial and human resources in China.

2.5 Industry Structure That Filters the Diffusion of Transnational Rules

Besides the pressure from businesses and NGOs, the structure of domestic industry can also affect the acceptance of any transnational governance systems in a new market. It is widely recognized that no governance arrangement can provide a "one-size-fits-all" institutional blueprint for diverse contexts (Ostrom 2008). Hence, transnational governance programs do not always have the same effects on different types of supply chains and producers. Drawing on Young (2002), I use the concept of "fit" to denote the compatibility between Northern-developed transnational governance systems and the production methods, norms, and power relations in the relevant Chinese industry.

Abundant research on sustainability governance has shown incompatibility between transnational standards and local production methods due to various barriers that Southern producers face, including the lack of environmental data, the predominance of smallholders, and complex supply chain relationships (e.g., Klooster 2006; Bartley 2010; Pérez-Ramírez et al. 2012; Marschke and Wilkings 2014). Although most certification programs have stated their intention to protect smallholders, empirical evidence on various sectors and standards generally suggests that most existing eco-certification programs favor large, capital-intensive operations and therefore discriminate against small-scale production, which remains popular in the Global South (Raynolds 2004; Gómez Tovar et al. 2005; Cashore et al. 2006; Jacquet et al. 2010). According to Glasbergen (2018), this discriminatory effect is caused by the discrepancy between the sustainability problems prioritized by transnational actors advocating for eco-certification and the needs, interests, and preferences of smallholders in developing contexts. Therefore, domestic industry structure can also influence the spread of transnational governance in China.

Hypothesis 4 Domestic industries favoring industrial, capital-intensive commodity production are conducive to the spread of transnational governance in China.

According to the existing literature, industrial, capital-intensive producers have three key features: market concentration, vertical integration, and economies of scale. Therefore, we can search for evidence supporting hypothesis 4 by examining the existence of these characteristics in Chinese industries. First, market concentration—also called "horizontal integration"—refers to the dominance of a few large players in the market. This feature supports the adoption of transnational governance in a supply chain by alleviating the collective action problem if the relevant programs only need support from a few major players (Cashore, Auld, and Newsome 2004; Gereffi, Humphrey, and Sturgeon 2005; Ponte and Gibbon 2005). For instance, Lee, Gereffi, and Beauvais (2012) have identified four broad types of agri-food supply chains according to the degree of market concentration in the supply and demand segments—buyer-driven chains, producer-driven chains, bilateral oligopolies, and traditional markets—and found that traditional markets that are fragmented in both the supply and demand segments are the least likely to adopt private standards.[9] Hence, we can expect that in a highly concentrated industry, transnational governance will quickly thrive when leading producers or buyers have incentives to use eco-certification to ensure sustainability of production processes as well as product safety and quality (Conroy 2007; Mayer and Gereffi 2010). In this respect, we need to consider the degree of concentration at various nodes along a supply chain, including production, processing, trade, and retailing. Leading firms at any of these nodes of the supply chain can hold significant structural power in the market (Fuchs and Kalfagianni 2010).

Observable implication 4a Market concentration at any stage of the supply chain facilitates the adoption of transnational eco-certification in a given Chinese industry.

The second feature, vertical integration, increases coordination along the supply chain, which facilitates the adoption of eco-certification. In fact, this feature fits the institutional design of most certification programs, as they require the traceability of products along global supply chains and often construct vertically integrated chains tailored for different products (Daviron and Vagneron 2011). Through explicit coordination along the supply chain, hierarchical governance is helpful to the flow of rules required by eco-certification (Gereffi, Humphrey, and Sturgeon 2005; Bush 2018). In contrast, market governance based on ad hoc contracts creates challenges for buyers monitoring the practices of their suppliers (Locke 2013). For commodity producers, being vertically integrated into a chain means long-term, collaborative relationships with downstream buyers, which can increase producers' incentives to adopt and comply with sustainability standards, especially when a price premium exists (Raynolds 2009). Otherwise, suppliers would have greater leeway to switch to buyers who do not ask for certification.

Observable implication 4b Vertically integrated supply chains facilitate the adoption of transnational eco-certification in a given Chinese industry.

Another important feature common to industrial, capital-intensive producers is economies of scale. For most eco-certification programs, the adoption of their standards requires producers to have a relatively strong managerial capacity to establish systems of documentation and record-keeping (Marschke and Wilkings 2014; Bartley 2018). Such requirements are likely to disadvantage small-scale producers and may even exclude them from the value chain (Bush et al. 2013). Even though programs like organic and Fairtrade certification originally aimed to empower marginalized producers in developing countries, the evolution of these programs has significantly increased bureaucratic requirements and certification costs, and therefore the programs become more likely to favor large, agribusiness-style production (Raynolds 2004, 2009; Auld, Renckens, and Cashore 2015). In China, the agri-food sector remains highly diverse, and producers vary significantly in their scales of production (P. Huang 2011). Hence, large agribusinesses are more likely to get certified.

Observable implication 4c Chinese companies engaging in large-scale production are more likely to adopt transnational eco-certification.

2.6 Domestic Champions in the State Bureaucracy

While transnational governance programs are mainly driven by businesses and NGOs operating across borders, domestic actors and institutions can play critical roles in the processes of diffusing relevant rules and standards from the Global North to the Global South (Manning et al. 2012; Berliner and Prakash 2014; Distelhorst et al. 2015; Andonova and Sun 2019). In China, such influence at the domestic level usually stems from the state, which has kept a firm hand on the promotion and regulation of economic development, even though the country has implemented various market reforms in the past 40 years (Y. Huang 2008; Kennedy 2010; Hsueh 2011).[10] Moreover, in China's environmental governance, state planning has become a dominant process through which to exert strong influence on the behavior of businesses and other actors (Young et al. 2015). In fact, research has shown that the rise of some sustainability standards and corporate social responsibility initiatives in China is attributable to support from the Chinese government (Lin 2009; Hofman, Moon, and Wu. 2017). As a result, a transnational governance program has a better chance of thriving in China if it gains support from the Chinese state.

But the state is a conglomerate of agencies and individual actors. China is no exception, even though the country is under authoritarian rule. For this reason, scholars of Chinese politics have proposed the notion of fragmented authoritarianism to describe the divergent and sometimes competing interests of different actors in China's large bureaucracy (Lieberthal and Okesenberg 1988; Lieberthal and Lampton 1992). To understand the influence of the Chinese state on transnational governance, the key questions then turn on which actors in the state might have an interest in intervening in the adoption of relevant rules and how they can do so.

Past research based on other countries' experiences suggests that governments cooperate or co-regulate with non-state actors to relieve regulatory burdens and increase overall governance efficiency (Harrison 1998; Andonova 2014; Green 2014). These motivations might also drive some Chinese state agencies to support transnational sustainability governance. Such state agencies in China could incentivize businesses to adopt transnational rules by providing new information, technical assistance, and even financial rewards like subsidies (Auld, Bernstein, and Cashore 2008; Lister 2011; Gale and Haward 2011; Gulbrandsen 2014). However, that transnational governance originates from the Global North and is led by non-state actors could also make it difficult for Chinese state actors to accept the relevant programs and to view this governance mode as legitimate (Bloomfield 2012; Buckingham and Jepson 2013). Therefore, we need to carefully identify the actors in China's bureaucracy that are most likely to engage with transnational governance. Given the governance landscape in the country, two types of state actors are likely to play an important role.

First, subnational governments at the provincial and city levels may interact with transnational governance programs when firms in their jurisdictions plan to adopt relevant rules. Accordingly, the discretion of local officials in implementing policies in the reform era of China has important implications for the rise of transnational governance in China.[11] In fact, such discretion also exists in the state's regulation of civil society, where the central government often sends "mixed signals" about the limits of what is permissible and allows local officials to judge whether activities are acceptable (Stern and O'Brian 2012).[12] This central-local relationship in China largely explains why, for non-state actors, political opportunity structures are often open at the subnational level for collaboration with government agencies and for influencing policy (Mertha 2009; Hale and Roger 2018). Observing this dynamic, Teets (2014) develops the model of "consultative authoritarianism," which features collaboration between subnational Chinese governments and foreign NGOs, driven by local government officials' willingness to leverage transnational actors for the provision of public goods (also see Weller [2012] and Spires [2011] for similar efforts toward this theory building).

Therefore, when transnational sustainability governance is introduced in China, some subnational governments may be able to provide support for relevant programs without Beijing's consent. For transnational programs and the NGOs that support them, local government officials should be also more approachable and easier to engage with than central-level regulators. The interests of subnational governments in supporting transnational governance could be triggered by both economic and political incentives. In many instances, the prospective economic benefits are an important driver for subnational governments to intervene in policy. Research has shown that local governments in China are willing to make reforms and promote transnational standards to attract foreign investment and boost exports (K. Zeng and Eastin 2007; Wang 2015). Accordingly, local government officials may want to provide support for transnational governance when they expect that the adoption of relevant rules or standards can improve the competitiveness of local industry or attract new investors. In this situation, subnational governments strategically use transnational governance as a tool to further promote local economic development.

Moreover, transnational governance may also help Chinese government officials attain some sustainable development policy goals, and for this reason, subnational governments may encourage businesses to comply with relevant rules. Over the past two decades, central policymakers in China increasingly have paid attention to environmental and social issues associated with economic development and have set a range of targets on sustainability (Zadek 2012). In this political context, the actions taken to promote sustainable development are sometimes a criterion in the central government's evaluation of local officials; accordingly, better policy outputs and outcomes for environmental or sustainability governance is helpful in the promotion of local officials (Y. Qi et al. 2008; Kostka 2016). Due to this career incentive, local government officials could be eager to promote sustainable development. But they may lack the necessary resources to attain policy goals on sustainability and therefore need to collaborate with non-state actors (Schroeder 2011; Teets 2014). The same dynamic could apply for transnational eco-certification when local officials believe that some programs could help them deliver better sustainability outcomes.

These two incentives are not mutually exclusive but often coexist and reinforce each other. They could drive local government officials in China to take a series of actions to support firms and producers in their adoption of transnational eco-certification, including providing financial rewards, removing policy barriers, and organizing campaigns. While financial rewards, such as subsidizing certification costs, hold promise for effectively changing firms' behavior, such support may be rare or insufficient due to the resource constraints of many subnational governments. These governments may prefer to use nudge-like interventions, including awareness raising, policy recommendations, training, and the removal of policy barriers, to generate interest in transnational governance among firms (J. Chen, Innes, and Kozak 2011). Given the subnational government's influence on the local economy, these interventions could still make important contributions to the spread of transnational governance at the subnational level.

Hypothesis 5 Support from Chinese subnational governments contributes to the spread of transnational governance in their jurisdictions.

To test this hypothesis, I compare different regions in China and examine policy changes by firms in regions where subnational governments provide support for transnational governance.

Observable implication 5a The adoption rate of transnational certification is higher in regions where the local governments provide support for relevant programs.

Observable implication 5b Firms decide to get certified after they have received support from their local government.

The second type of actors in the Chinese state bureaucracy that may have strong incentives to support transnational governance is industry-specific associations at the national level. Past research on other countries has found that industry associations play critical roles in channeling the diffusion of transnational governance (Garcia-Johnson 2000; Andonova 2004; Cashore, Auld, and Newsom 2004; Schleifer 2017). In China, these associations are likely to have an even stronger influence on businesses due to their being part of the state bureaucracy.

In the post-reform era after 1978, China has developed a unique form of state organization that diverges from both the Soviet model of "big" bureaucracy, with all services provided by the state, and the liberal market economy model of "small" bureaucracy, with extensive contracting to non-state actors for the provision of public services (Ang 2009). The Chinese state has a bifurcated structure consisting of bureaus (*jiguan danwei*, literarily translated as "administrative units") and extrabureaucracies (*shiye danwei*, literarily translated as "service units") in every governmental sector and at every level of government. In this system theorized by Ang (2009) as "bureau-contracting," each parent bureau manages a group of extrabureaucracies and has some control over the latter's operations, finances, and personnel appointment, while extrabureaucracies perform a range of tasks delegated to them by their parent bureau, including providing public services, enforcing administrative rules, and even operating commercial activities.

Therefore, unlike their counterparts in liberal market economies, industry associations in China are generally *shiye danwei* and, by nature, part of the state (Guttman et al. 2018).[13] In theory, industry associations do not have regulatory power, but they may have some administrative discretion delegated to them by their parent government agencies, and the leaders of these associations often have the status of civil servants (Ang 2009, 2012). Accordingly, industry associations in China facilitate the implementation of public policies and collect business groups' opinions for policymaking. For most businesses in China, the quasi-state nature of these associations means that their recommendations reflect the direction of government policies. At the same time, being partially dependent on their member companies' financial contributions, industry associations in China are also motivated to protect their members and often serve as effective lobbyists for policy changes (Unger and Chan 1995; Kennedy 2005; Deng and Kennedy 2010).

This unique role played by Chinese industry associations provides them with opportunities to make effective interventions in the adoption of transnational governance. Like subnational governments, their interventions can be driven by both economic and political interests. First, industry associations may support the adoption of transnational governance when relevant standards can bring material benefits to their member firms, such as an expansion into international markets or an increase in productivity (Kennedy 2007). Second, as extrabureaucracies of the state, these associations may encourage the adoption of transnational governance when they find the latter helpful to achieving certain government reforms, such as industrial upgrading and sustainable development. For industry associations' top officials, promoting government reforms through support for transnational governance not only may help their associations get more resources from the relevant parent bureaus but also may create opportunities for their own career promotions.

Given the size of China, we can expect the influence of industry associations on firms' interests in transnational governance to be significant when there is support from national-level associations affiliated with ministry-level agencies. In these situations, the associations' support for transnational governance is seen by their industries as a sign of tacit consent or implicit endorsement of the relevant state regulators. Meanwhile, national associations usually include all major firms in their sectors and therefore can effectively help transnational programs reach many potential adopters and raise awareness of the sustainability issues associated with their industries. Additionally, in China's standardization system, the state often delegates authority to national associations to set industry-specific and group standards. For this reason, their recommendations on new standards are expected to be given significant weight by Chinese firms (Guttman et al. 2018).

To support transnational governance programs, Chinese industry associations generally rely on information sharing and service provision, as they can neither impose regulations nor provide financial rewards like subsidies. Yet they still have some administrative discretion to "nudge" businesses toward the adoption of transnational rules. For instance, they can communicate the benefits of eco-certification to businesses, provide technical advice for the adoption of relevant standards, and even seek to create an industry culture of sustainability through stakeholder forums and training workshops (J. Chen, Innes, and Kozak 2011). They can also bestow excludable benefits on certified producers by endorsing these producers in the marketplace. In this sense, industry associations in China can play a role similar to that of agencies that implement industrial policy in East Asian developmental states (e.g., Taiwan) to change business practices by providing a kind of "industrial extension service" (Wade 2004, 2010). For this reason, I expect the following to hold:

Hypothesis 6 Support from national industry associations in China contributes to the spread of transnational governance in relevant sectors.

Evidence supporting this hypothesis can be observed through comparison across sectors and firms' decision making about the adoption of eco-certification.

Observable implication 6a The adoption rate of transnational certification is higher in sectors where national industry associations provide support for relevant programs.

Observable implication 6b Firms decide to get certified after they have received support from their national industry association.

2.7 Necessary Conditions for Winning Support of Chinese State Actors

While subnational governments and national industry associations are two likely domestic champions of transnational governance, these actors do not necessarily have an interest in intervening in the spread of relevant programs. Even when transnational governance can automatically provide benefits to some actors in China's bureaucracy, the latter may not be aware of the relevant programs originating from abroad or simply may not have the capacity to provide effective support to influence businesses. In the worst case scenario, when Chinese state actors are critical of transnational governance programs—as shown by the case of the FSC—they could hinder the operation of the relevant programs in China and establish competing programs (Buckingham and Jepson 2013; Bartley 2018). Therefore, we must consider the factors that are conducive to the emergence of supporters for transnational governance in the Chinese state.

Any kind of support from Chinese state actors must be based on their own incentives to seek benefits from transnational governance. On this basis, two more conditions seem necessary for state actors to be interested in promoting transnational rules. The two conditions considered in this section can only be *necessary but not sufficient conditions* for the emergence of support of state actors, because other political economy factors must first exist to shape the initial interest of Chinese state actors in transnational governance.

The first condition is the proactive engagement of transnational governance programs and their supporters with Chinese state actors, who may have a shared interest in sustainability governance. In other words, transnational actors advocating for a new governance program need to build a "transnational alliance" with some actors in China's bureaucracy (Farrell and Newman 2015). Frequent outreach and communication appropriate for local contexts are expected to be highly important for the successful diffusion of Northern-developed governance systems in emerging economies, as local stakeholders have little prior knowledge of the relevant governance mode and standards (Garcia-Johnson 2000; Espach 2009; Peña 2016). In the context of China, research has shown that government support for civil society organizations is more likely to occur when personal and professional networks have been established between them (Ru and Ortolano 2009; Teets 2017). Over time, the links between Chinese government officials and transnational non-state actors are likely to create a learning process through which the two sides understand each others' concerns, and such learning can reinforce the collaboration between state actors in China and foreign NGOs (Teets 2014). Thus, the more proactively transnational governance programs engage with state actors in China, the more likely it is that these programs can find supporters.

The second condition is the structure of domestic governance, which can shape the outcome of transnational actors' engagement. In this respect, institutional fragmentation is a critical factor. As suggested by the framework of fragmented authoritarianism, in China, regulatory functions for many issues can be shared by different state agencies, whose interests may diverge (Lieberthal and Oksenberg 1988; Mertha 2009). Such fragmentation increases the costs for transnational programs to find allies in the Chinese bureaucracy, as their managers would need to approach different government agencies or industry associations, which may have different preferences. A fragmented structure also implies that each regulatory agency in the relevant sector has limited capacity and influence, so that the agency cannot provide effective support for the adoption of new standards and practices. By contrast, if a focal state agency—one that is responsible for the regulation of the relevant sector—exists, transnational programs will have a clear target for engagement, and the relevant agency is likely to have enough authority to leverage relevant rules made by non-state actors.[14] In this respect, regulatory fragmentation is expected to bring challenges, rather than provide opportunities, for transnational programs to find supporters in the Chinese state. Therefore, for any transnational governance programs wanting to expand in China, the two conditions discussed above, taken together, are likely to shape the program's likelihood of getting support from domestic state actors.[15]

Table 2.1 shows four idealized types of responses by Chinese state actors to transnational governance according to domestic regulatory structure and the level of engagement efforts made by transnational governance

Table 2.1
Possible outcomes of Chinese state actors' responses to transnational governance

		Domestic regulatory structure in the sector	
		Concentrated	Fragmented
Level of engagement of transnational programs with domestic state actors	High	Strong support	Weak support
	Low	Ambiguous position with the possibility of resistance	Ambiguous position but unlikely to show clear resistance

programs. The basic assumption of these scenarios is that Chinese regulators have no predetermined objection to transnational governance; otherwise, the engagement of other actors alone may be unable to garner support from the relevant state actors. Given this assumption, when a focal state agency exists in a sector, and transnational programs actively engage with this agency or its extrabureaucracies, the relevant government officials are likely to see the benefits of transnational governance programs for China and therefore decide to provide moral or policy support (see the upper-left entry in the table). When all else is equal but the regulatory power is shared by different state agencies, support from actors in the Chinese state would become less likely or weaker due to these actors' divergent interests and the limited authority of each agency (see the upper-right entry in the table). However, when a focal agency exists but relevant transnational programs make little effort to engage with its officials, it is very unlikely to see support from this agency for transnational governance. An even worse possibility in this situation is that the lack of engagement causes misunderstanding and mistrust between transnational and Chinese actors, which can ultimately result in resistance, led by actors in the relevant agency, to the spread of transnational governance in China. Hence, the lower-left entry in table 2.1 suggests that the relevant Chinese state actors are likely to show ambiguity or even resistance to transnational governance. Lastly, when the domestic regulatory structure is fragmented, and transnational programs do not actively engage with actors in different agencies, support from relevant state actors in China remains unlikely. In addition, given the fragmentation of domestic regulatory structure, it is also unlikely for state actors to develop a strong position against transnational governance (see the lower-right entry in the table).

Hypothesis 7 The domestic regulatory structure and the engagement by transnational governance programs together determine the likelihood of winning support from Chinese state actors.

To find evidence supporting this hypothesis, we can look at the conditions in which the most probable allies of transnational governance in China's bureaucracy actually provide support.

Observable implication 7 Subnational governments and national industry associations in China support the adoption of transnational eco-certification when the regulatory power of the sector is concentrated in an agency and certification programs actively engage with state actors.

While hypothesis 7 sheds light on two critical (necessary) conditions for the support of domestic state actors, we must acknowledge the existence of other political economy considerations that can shape the position of Chinese regulators. Among many considerations, potential development benefits of transnational governance for China are likely to constitute an important set of factors, which can include benefits to bridge domestic governance gaps, to make local industry more competitive, and also to increase the authority of the relevant agencies in the state bureaucracy. Given the wide range of these benefits, my framework does not identify specific hypotheses about them, but the analysis in the rest of the book offers insights into the relevant political economy processes and develops propositions to be considered in future research.

2.8 Conclusion

Transnational governance is driven by both market and political forces. Accordingly, the rules and standards set by eco-certification programs do not always automatically flow through market transactions. When transnational programs are introduced, domestic institutions often exert a strong influence over their diffusion and operation. China provides a unique context for the functioning of transnational sustainability governance, characterized by the limited space for NGO campaigns and the lack of political consumerism. This chapter presents an explanatory framework for the rise of transnational governance in this context. The framework maps three types of principal stakeholders involved in the introduction of transnational rules in a given Chinese industry and generates seven hypotheses on the ways in which these stakeholders can generate incentives for firms to adopt relevant rules.

Cross-border market transactions comprise the first and probably the most direct mechanism for introducing and spreading non-state governance arrangements from the Global North to China. Foreign buyers (hypothesis 1) and investors (hypothesis 2) drive this process by requiring their Chinese suppliers or subsidiaries to adopt relevant rules, standards, and practices. In this case, transnational governance is used by Chinese firms as a tool for securing or expanding their access to the global market. Beyond market forces, transnational governance programs themselves can act as civil society organizations to raise awareness among local firms and make moral appeals. These programs can also influence other stakeholders, such as multinational corporations and domestic regulators, who have the means to directly change firms' behaviors. Hence, for any transnational governance programs, proactive outreach strategies and a well-resourced local chapter in China should be conducive to their spread (hypothesis 3). In addition to the influences of different transnational actors, the framework considers the conditioning effects of domestic industry structure on the uptake of transnational governance. This structural factor is crucial due to the challenges of applying Northern-developed transnational rules to the developing context. Hence, I expect that the more a local industry engages in industrial, capital-intensive production, the more easily it can adopt transnational governance (hypothesis 4).

More importantly, domestic actors in host countries can play critical roles in grounding transnational governance, and given China's authoritarian context, the state is expected to have the largest influence in this process. Although transnational governance systems were largely initiated by non-state actors based in Western democracies, due to the fragmented nature of Chinese authoritarianism, some actors in China's bureaucracy may still have economic or political incentives to support the spread of transnational sustainability governance. Two types of state actors are the most likely to become supporters of transnational governance: subnational governments and national industry associations. When they find transnational governance helpful for generating economic benefits or attaining sustainable development policy goals, they can nudge firms toward embracing transnational governance through information sharing, capacity building, and even financial rewards. Through such interventions, subnational governments (hypothesis 5) and national industry associations (hypothesis 6) can make important contributions to the spread of transnational governance in China. But these state actors often have limited prior knowledge about governance systems originating outside China and are therefore unlikely to spontaneously develop interest in supporting the adoption of relevant rules. Therefore, to find supporters in the Chinese state, transnational governance programs need to identify a small number of probable supporters in the domestic regulatory landscape and actively engage with them (hypothesis 7).

The framework developed here offers new insights into the dynamic interactions among transnational and domestic, and private and public stakeholders in the process of introducing transnational sustainability governance in China. While recognizing the North-South divide in transnational governance, my framework suggests that proactive engagement with domestic stakeholders holds the promise of bridging this gap. It also brings back the agency of Southern stakeholders in sustainability governance. Rather than assuming that transnational governance is a tool of Northern stakeholders to maintain their powerful position in global supply chains, one can expect that state actors and businesses in China may strategically use transnational governance to meet their own objectives. While not weighing the importance of different factors, I do recognize the possibility that some can be more important than others in certain sectors and during certain times, as well as the need to assess their relative importance in empirical cases.

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