

<https://blog.en.erste-am.com/social-impact-via-engagement/>

## Social impact via engagement

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### Impact investment

More and more investors want to invest their money responsibly and sustainably – not only to create additional inflows, but also to create an “impact”. As a result, the demand for so-called impact funds has increased substantially in recent years. Especially young people, who until very recently had little interest in investment funds, are now increasingly interested in alternative ways of investment in order to invest their money responsibly. One way of creating impact with asset managers is to get in touch with invested companies and to try to enter into a dialogue so as to directly address certain problems. A topic that has been addressed frequently in recent months by the media are the alleged human rights violations of China against the Muslim minority of the Uyghurs. We have decided to look more closely by approaching companies that have been suspected of using Uyghurs as forced labourers in their supply chain.

### Social impact

In order to be able to monitor the situation in China and to ensure due diligence in the field of human rights, Erste Asset Management has joined the collaborative platform PRI (Principles of Responsible Investment) and is participating in the engagement efforts of “Human Rights Risks in Xinjiang Uyghur Autonomous Region”. PRI is a collaborative platform created by UNO and OECD in 2011 with the goal of bringing together investors from around the world for them to be able to collaborate on projects.

The Investor Alliance for Human Rights, which organises frequent meetings with all participating investors, has contributed significantly. The first meeting was held at the beginning of November via Zoom, where all the participating investors had a chance to introduce themselves and explain what they considered particularly important about this engagement project. Another meeting took place shortly before Christmas, with the goal of preparing so-called engagement letters and to send them to companies suspected of employing Uyghur forced labourers in their supply chain. In the engagement letter, the companies in question are being confronted with claims and assumptions, and the question is raised of whether the companies are aware of the accusations and are doing anything against that situation.

### Forced labour suspected

Uyghurs are a Muslim minority that lives mainly in the autonomous region of Xinjiang in the North-West of China. Xinjiang was independent for a short while in the 1940s and has been under China’s control since 1949. News have suggested repeatedly that the People’s Republic of China is allegedly guilty of genocide against the Uyghurs (Kurier, 26 February 2021). For example, beards and veils have been banned. China is also suspected of having banned the Uyghur language in some parts of Xinjiang, of having closed down mosques, and outlawed halal products (The Guardian, 2020). According to a study by the BBC, this has led to the population growth among Uyghurs to drop by 84% in the years 2015 to 2018.

Observers suspect that Uyghurs are being detained for the simplest violations and sent to so-called labour camps. According to The Guardian, some 1 million Uyghurs are currently held in labour camps under dire conditions. China is suspected of torturing and politically indoctrinating them, and Uyghurs have reportedly been forced to denounce their own religion. There are also rumours that Uyghurs are being used as forced labourers in factories that produce for large global companies. Cheap labour has become an important engine for the economy of Xinjiang. For example, the number of Uyghurs sent to other parts of China increased dramatically in the years 2017 to 2020 (ASPI, 2020).

The People’s Republic of China denies all accusations and refuses to refer to the actions of the government as genocide. Labour camps serve as places of re-educating extremists and fighting terrorism, as Chinese officials would have it. There have been sporadic acts of terror in China for which the Uyghurs have claimed responsibility. The suspicion against the Muslim minority increased even more after 9/11, which led the tense situation in Xinjiang to boil over in 2009 and result in several acts of violence. Then, in 2014, a group of Uyghur terrorists killed 31 people. China gives these and other reasons to justify its iron-fist approach by which Uyghurs are sent to a labour camp upon minor infractions, exploited, and subsequently “sold” to factories as cheap labour (ASPI, 2020).

Another reason for the drastic measures China has been taking is the project “One Belt, One Road”. Based on the idea of the Silk Road, this project is meant to expand trade with Europe, Asia, and Africa. Xinjiang plays a crucial role in the North-West of China, which is why the country is trying to quell resistance in the area at all costs.

### Engagement letters

The first engagement letter where Erste Asset Management participated were sent off to companies at the beginning of the year. The engagement project is of a long-term nature, with the goal of holding at least one meeting per quarter. The next one will take place at the end of March, where the responses from the accused companies will be discussed.

At the moment, about 20 investors from the field of asset management participate in the engagement project, Erste Asset Management being the only Austrian representative. This collaborative effort bundles our influence and the pressure that can be exerted on the companies and supports human rights. Since we act on behalf of Erste Asset Management, all EAM funds benefit from it, and by investing in our funds, investors can contribute indirectly to ensuring due diligence in human rights. This form of impact investment cannot be measured in monetary terms and thus somewhat eludes measurements in general, but definitely leads to a positive social impact.

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