Volkswagen announced it was talking to its Chinese joint venture partner SAIC over ‘the future direction of business’ in Xinjiang.

When BASF last week announced it would sell the stakes of its two plants in China’s Xinjiang region, it cited serious allegations of human rights abuse by employees of its local joint venture partner that were “incompatible with its values”.

The move followed German media reports that alleged employees at the company’s joint venture partner, Xinjiang Markor Chemical Industry, had carried out “home visits” to Uyghur families to gather evidence that would be passed on to authorities.
BASF stressed that audits of its Chinese ventures had never found any indication of human rights violations in its operations in Xinjiang — a region where Beijing has committed widespread human rights abuses against Uyghur and other Muslim groups.

But Markor had not tried to hide that its employees were carrying out state-sanctioned home visits to Uyghur families. Quite the opposite: accounts of these visits appear to have been listed in Markor’s corporate social responsibility statements, according to reporting by Der Spiegel.

The incident highlights how western businesses operating in China are increasingly struggling to straddle the growing rift between the values of many investors in their home countries and those of the Chinese government — as well as existing US and upcoming EU legislation targeting Xinjiang supply chains.

Punishment for companies caught up in geopolitical spats over human rights can be swift, as evidenced when brands such as H&M and Nike in 2021 were widely boycotted by Chinese consumers after they acquiesced to pressure from their home regions to stop buying cotton from Xinjiang.

Janne Werning, head of ESG capital markets at Union Investment, argues that BASF — which is building a €10bn petrochemical plant in southern China — was not likely to face boycotts for its decision to pull out of Xinjiang mainly because “China needs the products that BASF makes [in the country]”.

But the same is not necessarily true for Volkswagen, which will now become the last remaining large German group with a plant in Xinjiang, albeit one that is now only a distribution hub. “Volkswagen needs China to sell its cars, but China has its own carmakers by now,” Werning said, highlighting how the Wolfsburg-based group relies on the country for roughly half of its profits.

With BASF’s decision to pull out of Xinjiang, Werning says pressure will only grow on VW to do the same — or to provide more detailed information about its supply chains and activities in the region.

While BASF had been auditing its plants in Xinjiang for years, the company never revealed the exact scope of the reviews nor the names of the actual auditing firms. But greater transparency of audits in a region where the local population is severely repressed comes with its own reputational risks, as experienced by VW in December.

Just days after VW published a summary of its long-awaited audit that found no indications of the use of forced labour at the company’s Xinjiang plant, the majority of staff at Löning, the German consultancy behind the review, publicly distanced themselves from the findings.
In a bid to quell the fallout, the firm’s founder Markus Löning told the Financial Times that the basis of the audit had been a review of documentation relating to the plant’s 197 employees rather than interviews — contradicting what VW and Löning said previously — and went on to reiterate what critics had been saying all along.

Asking employees about the realities of life in Xinjiang would have “endangered” them. “Even if they would be aware of something, they cannot say that in an interview,” Löning said at the time, undermining his own firm’s audit, which had helped VW lose its “red flag” ESG rating by index provider MSCI.

Then this week, VW announced it was talking to its Chinese joint venture partner SAIC over “the future direction of business” in Xinjiang, following fresh allegations of forced labour in connection to a test track that the two built in the region. But VW would not say if a potential withdrawal was on the table.

Company insiders have previously said it would be impossible for the company to pull out of Xinjiang, as it would anger its joint venture partners which are owned by the Chinese government.

That connection to Beijing raises a broader point. With the Chinese government accused of repression in Xinjiang, VW could still face questions over its operations in the country even if the Xinjiang venture is unwound. This will become a growing issue not just for VW, but for any multinational in the country.

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