

Greening Belt and Road: Emerging Regulatory Framework for China's Sustainable Overseas Investments

Oyuna Baldakova
Graduate School of East Asian Studies, Free University of Berlin
UNCTAD Summer School, 5 September 2018



Outline

- ❖ Research Question and Methodology
 - ❖ Belt and Road Initiative (BRI)
 - ❖ Greening of Financial Institutions in China
 - ❖ Ecological Civilization and Green BRI
 - ❖ Top-down & Bottom-up Initiatives
 - ❖ Conclusion
-

Research Question and Methodology

- ❖ Doctoral research project: “Win-win on the Local Level: Study of the Belt and Road Initiative’s Linkage Effects in Central Asia” (working title)
- ❖ What are the approaches undertaken in China to green the BRI investments and what changes can we expect?
- ❖ Primary documents (official speeches, resolutions, BRI white papers) and secondary literature
- ❖ Fieldwork at PKU from January 26 to April 19, 2018: semi-structured interviews with more than 25 experts and practitioners (qualitative)

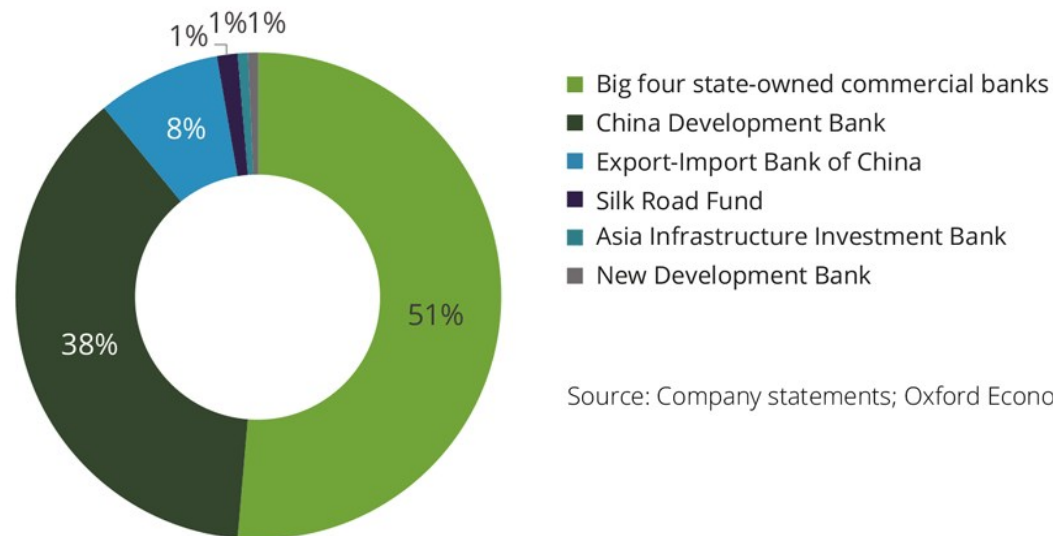


Belt and Road Initiative

- ❖ The Silk Road Economic Belt and the 21st-century Maritime Silk Road (2013)
- ❖ 一带一路 (*yi dai yi lu*): One Belt One Road (until 2016) => BRI
- ❖ Modern-day Silk Road / Marschall Plan
- ❖ BRI – grand economic / foreign policy initiative
- ❖ “A strategic framework allowing the Chinese Government to manage its infrastructure projects scattered across Asia, Africa and Europe in a more coherent manner”. It combines different foreign and domestic policies with existing, and new political and financial cooperation mechanisms in a new geographical format (EPRS, 2016)
- ❖ Chinese style / Xi style policy making (no KPIs, no defined scope and time period)
- ❖ BRI’s anticipated cumulative investment over an indefinite timescale is evaluated from the official Chinese **US\$ 600-800 billion** (Reuters, 2017) to combined international **US\$ 4 trillion** (The Economist, 2016)

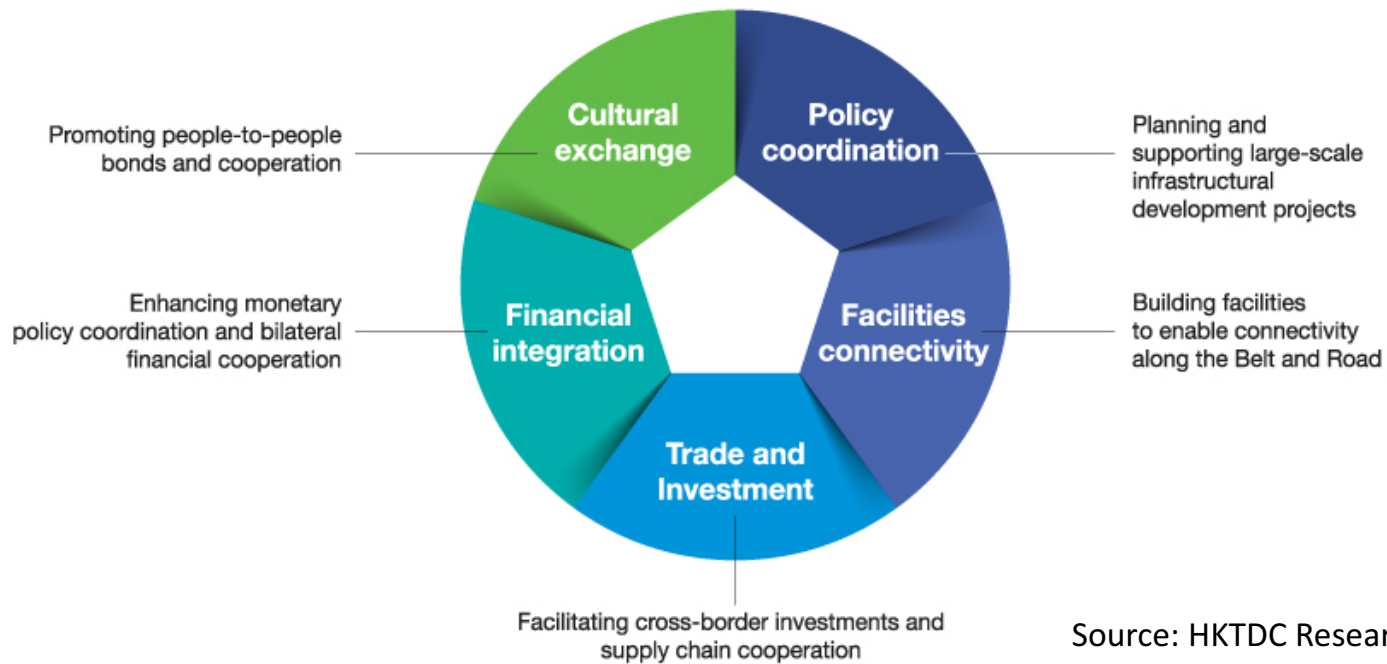
Funding for BRI by source

Outstanding loans or equity investment
at end-2016 (\$ billion)



Source: Company statements; Oxford Economics; FT.

Five Key Areas of BRI

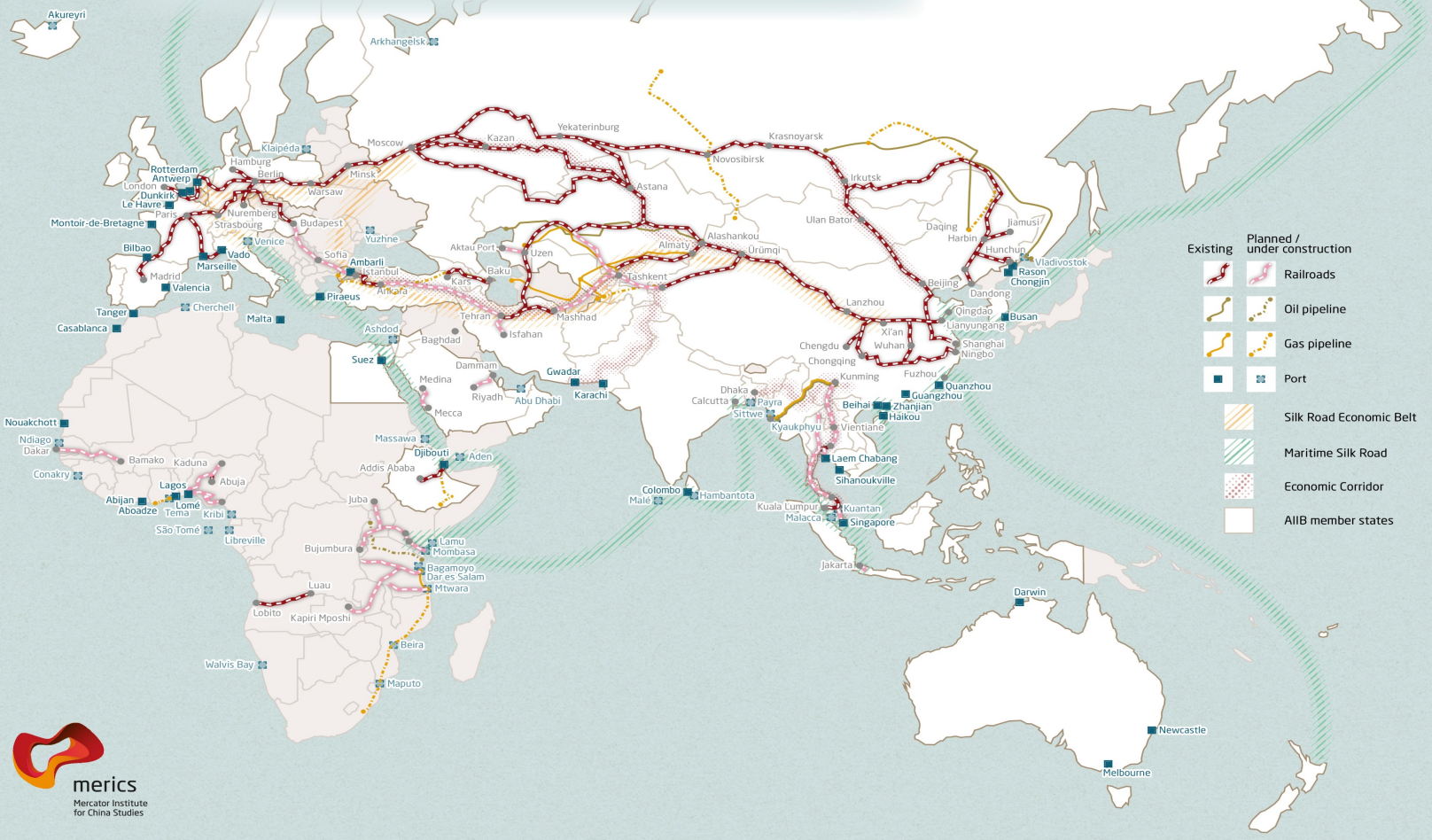


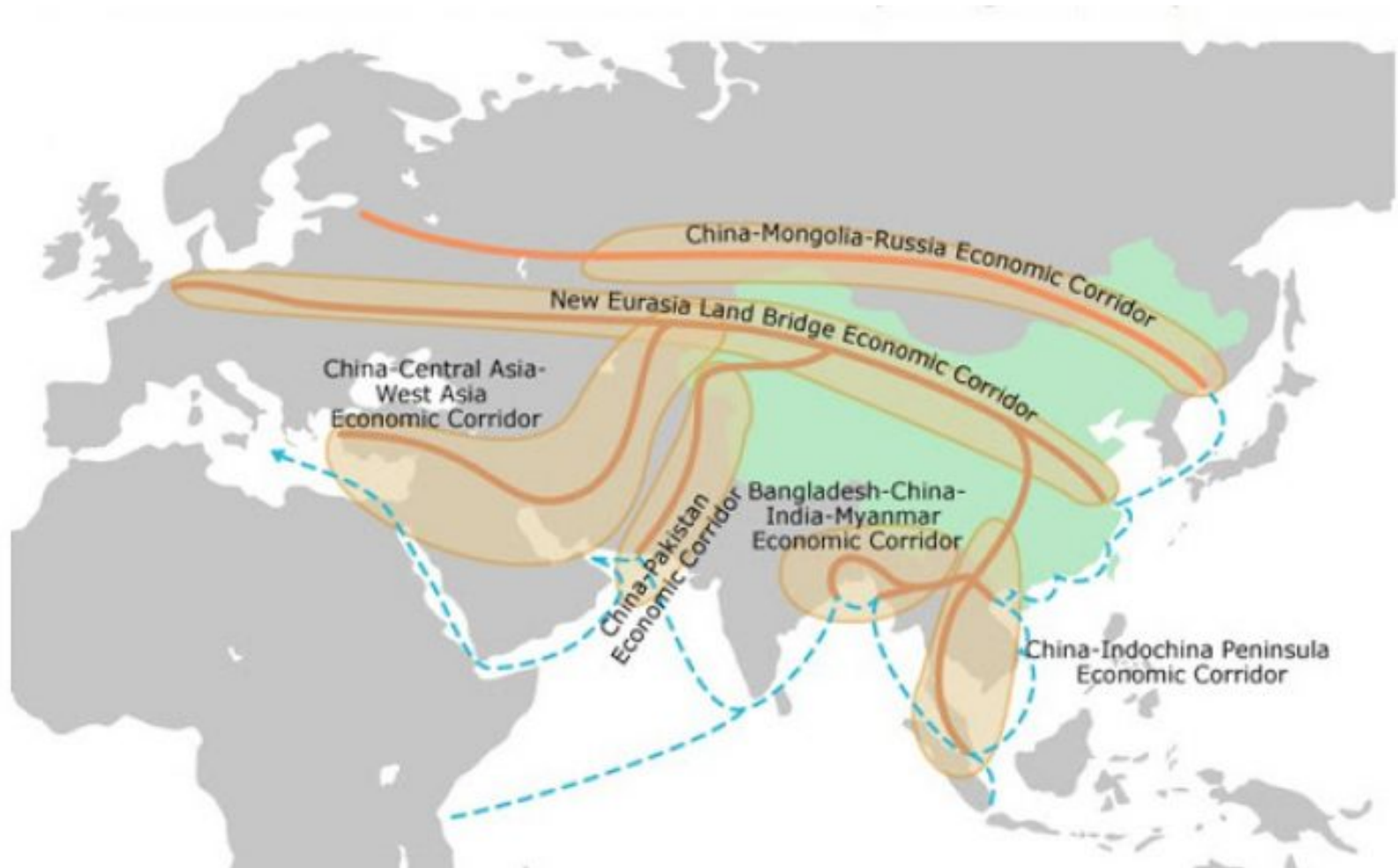
Source: HKTDC Research



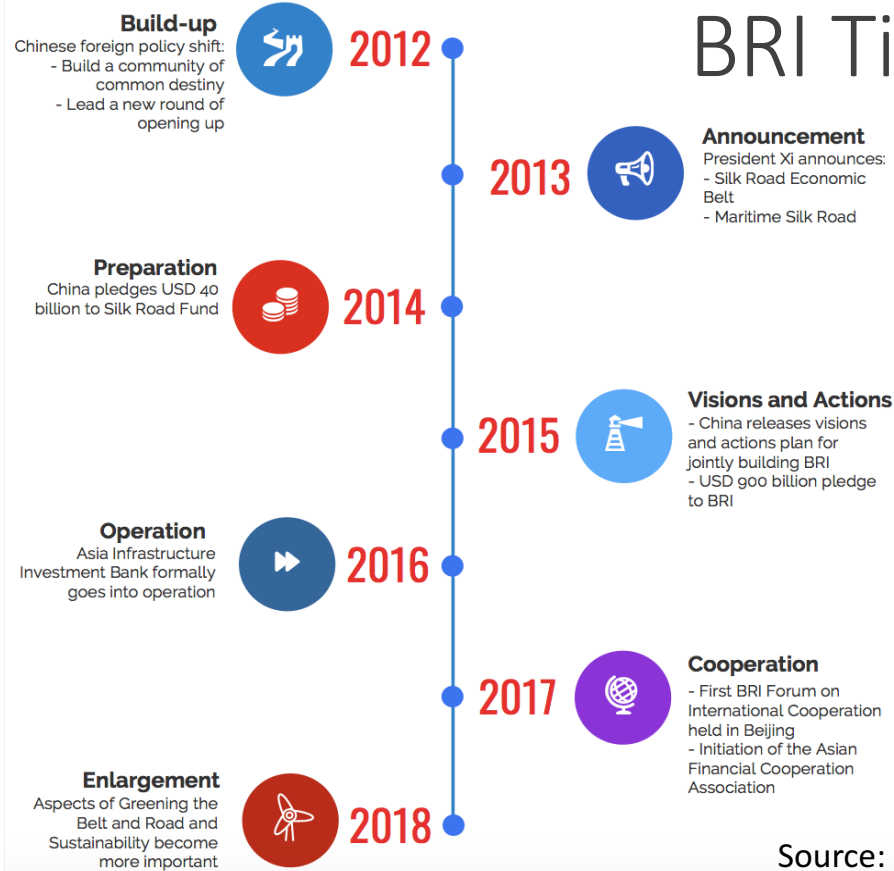
The Belt and Road Initiative creates a global infrastructure network

China uses, acquires and builds railroads, ports and pipelines





BRI Timeline



Xi Jinping

- 2012 – General Secretary of CCP
- 2013 – President of the PRC
- 2017 – BRI in the CCP constitution
- 2018 – Removal of term limits

Source: Belt and Road Advisory



Results after 5 Years

- ❖ As of Aug. 26, 2018, the number of **China-Europe freight trains** has reached 10,000.
- ❖ In the past five years, China's trade in **goods** with countries along the Belt and Road exceeded 5.5 trillion U.S. dollars. **Chinese direct investment in the non-financial sectors** of these countries reached 80 billion U.S. dollars.
- ❖ In the past five years, China set up **82 overseas economic and trade cooperation zones** in countries along the Belt and Road, investing 28.9 billion U.S. dollars and creating about 244,000 local jobs. As of May 2018, China had signed **16 free trade agreements with 24 countries and regions**, nearly half of which are countries along the Belt and Road.

Results after 5 Years

- ❖ In the first seven months of 2018, Chinese companies raised **investment in 54 countries** along the Belt and Road. The 8.55-billion-U.S. dollar newly added investment represented an 11.8 percent increase year on year. New **construction contracts** along the Belt and Road worth 57.11 billion U.S. dollars.
- ❖ Under the initiative, China has set up **81 education institutions and projects as well as 35 cultural centers** in countries along the Belt and Road. In the first half of 2018, China spent over 270 million yuan (around 39.3 million U.S. dollars) on the **Silk Road scholarships**.
- ❖ As of July 2018, more than **100 countries and international organizations** had signed Belt and Road cooperation documents with China, extending the initiative's scope from the Eurasian continent to Africa, Latin America and the Caribbean, and the South Pacific region (Xinhua).



BRI Definition

- ❖ Its scope, time period, conditions of participation, responsible governmental agencies, etc. are ill-defined, ad hoc
- ❖ Unfolding phenomenon, a (learning) process that will take decades => Century Project
- ❖ As Wade Shepard puts it, the BRI is “flexible enough to evolve with the times, blow in the direction of contrasting political winds, and ride out the inevitable cycles of the global economy” (2017)
- ❖ Policies of today – future of the BRI

BRI Drivers


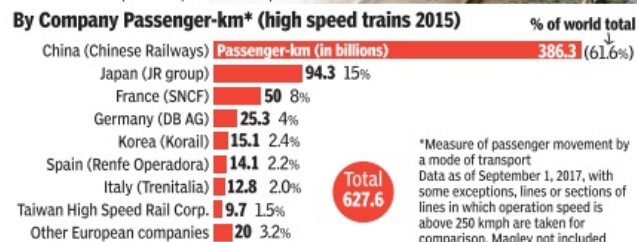
Source: based on preliminary analysis of interviews and literature review

Spheres	Issues to be solved -> Goals to be achieved
Economic	<ul style="list-style-type: none"> • Industrial overcapacity -> use of excess capacity (tied loans) when building infrastructure overseas (bullet trains), international industrial transfer/capacity cooperation policies; • Industrial upgrading to deal with the middle-income trap; • Liquidity oversupply (reserves accumulation) -> new investment opportunities; • RMB internationalization; • Malacca Dilemma -> development of new trade routes; • Securing access to resources (oil-backed loans); • Access to new markets for China's SOEs and private companies; • New round of globalization; • etc.
Social and (Geo)Political	<ul style="list-style-type: none"> • Development of China's Western and Northern provinces (map); • Security issues in Central Asia and Middle East; • BRI as a new ideology -> nation building; • Xi quest for power (CCP Constitution); • Tackling the New Normal, China's rising on the world stage -> improved CCP legitimacy in China; • Creation of new international institutions + standards' monopolization (quote); • Control of critical infrastructure of partner countries (Sri Lanka) and stronger negotiating position (Greece blocks EU statement on China's human rights); • Soft power: Chinese language popularization, student exchange; • etc.

Bullet Trains

LARGEST HIGH SPEED TRAIN NETWORK IN 2017

	No of Tracks	Distance covered(km)	Max. Speed (kmph)
China	89	26,783	350
Japan	17	3,041	320
Spain	21	2,938	300
France	12	2,696	320
Germany	13	1,475	300
Italy	10	981	300
Turkey	4	688	250
South Korea	4	657	300
Others	15	1,574	230-300
Grand Total	185	40,833	350

Source: International Union of Railways (UIC), International Maglev Board

China exports hybrid shunting locomotives to Germany

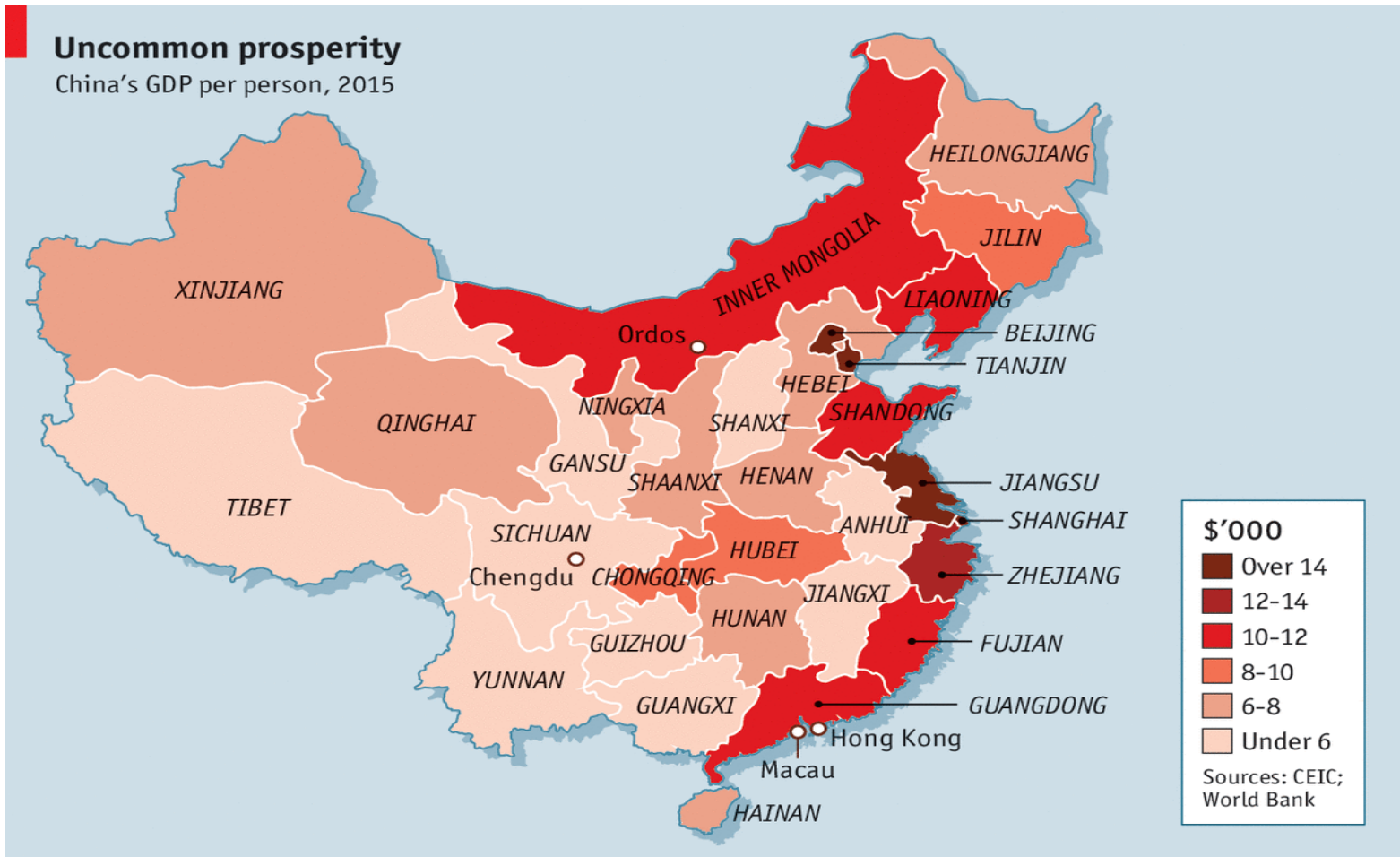
Xinhua | Updated: 2018-06-24 08:55



CRRC Zhuzhou Locomotive Co Ltd signs a framework agreement with Deutsche Bahn to export 20 hybrid shunting locomotives in Berlin, Germany on June 20, 2018. [Photo/CRRC]

Uncommon prosperity

China's GDP per person, 2015





Geopolitical Explanation

*'There appears to be a **correlation between efforts by rising powers to create ambitious new global or regional economic and political institutional arrangements as a way of 'locking in their power and influence'** and the rough **peaking of those powers' economic strength** in relation to the rest of the world. The United States led in the creation of the World Bank in 1944, for example, when its share of global GDP peaked at 36 percent. Japan created the Asian Development Bank in 1966 and Germany created the European Bank for Reconstruction and Development in 1991, following unification, each country close to or at its relative peak. In scale of ambition Xi's two biggest foreign policy initiatives, One Belt, One Road and the associated Asian Infrastructure Investment Bank, certainly warrant comparison with these predecessors. No causation is being suggested here, but if this pattern holds, even loosely, China, which accounts for nearly 17 percent of the global economy, may also be approaching a plateau in terms of relative size at best.'*

Howard W. French, "Everything Under the Heavens: How the Past Helps Shape China's Push for Global Power" (2017)

Global Reactions

- ❖ Alexander Cooley (2016): “**gamers**” (global governance) and “**traders**” (infrastructure gap => bankable infrastructure projects)
- ❖ Both have limited consideration of local contexts, potential distributional consequences, sustainability, and long-term impact
- ❖ “**Changers**” - sustainability of the infrastructure projects, their overall potential for the socio-economic development of BRI countries
- ❖ Widely promoted by the Chinese government (win-win), welcomed by international development organizations (UN endorsement), and to a degree overlooked by Western researchers and analysts



Greening of Financial Institutions

- ❖ Greening the financial systems in **OECD countries** is driven by market, shareholder and stakeholder pressures => voluntary measures, private standards, international principles for responsible investment and rating systems
- ❖ Governments play at best an **indirect role** in governing the greening of finances (transparency and reporting requirements of banking activities)
- ❖ In **China**, greening of finance is a creation of the government, its implementation - command-and-control regulations



Greening of Financial Institutions

Li and Hu (2014) distinguish four phases in the inclusion of environmental objectives and conditionality in China's main financial institutions:

1. Early 1980s: EIA (environmental impact assessment) approval as a precondition for loans by state-owned banks for major construction works
2. From 1995: greening of credit provisioning
3. 2001: greening the emerging stock markets
4. 2007: pilot phase of the environmental pollution liability insurance system

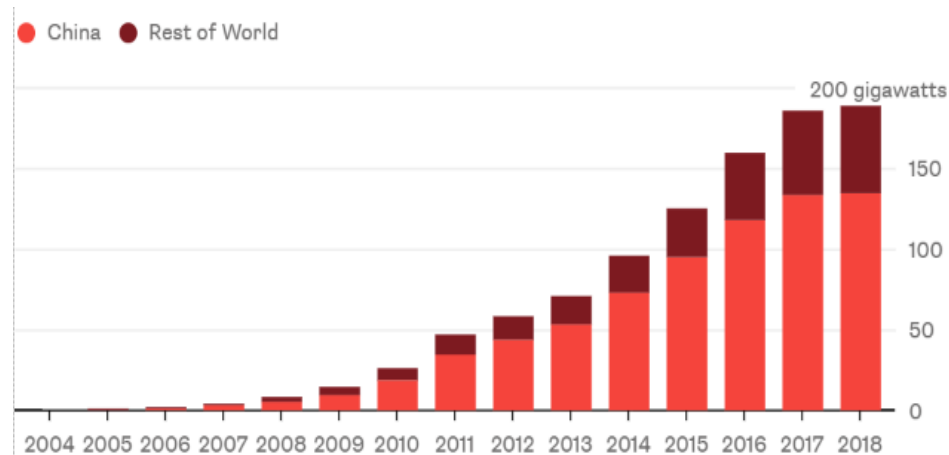


Greening of Financial Institutions

- ❖ 2007: **Green Credit Policy** – Chinese banks to withhold credit to heavily polluting or energy/recourse inefficient enterprises and to extend credit to environmental projects on preferential terms (solar panels)
- ❖ 2012: **Green Credit Guidelines** - improved rules and indicators system for green credit, investigation of the loan status of enterprises violating the regulations, *obligating banks to comply with host country law and international norms in their overseas lending* (unprecedented)
- ❖ Guidelines are not legally binding. Weak implementation - lack of capacity within banks on environmental assessment, poor reward and punishment, strong pressure from local governments to provide loans

Greening of Financial Institutions

❖ Annual manufacturing of solar panels



Source: Bloomberg New Energy Finance

Note: Annual manufacturing capacity for crystalline silicon modules.

Ecological Civilization and Green BRI

- ❖ **Ecological Civilization** (生态文明, *shengtai wenming*) – appeared in 2007, incorporated into the CCP Constitution in 2012
- ❖ Creation of a large-scale **circular economy**, a considerable increase of the proportion of **renewable energy sources** in total energy consumption, as well as bringing under effective control the **discharge of major pollutants**
- ❖ After 2013 environmental degradation high on public opinion polls in China (**airpocalypse**); the government introduced more comprehensive changes in the Chinese environmental law

Ecological Civilization and Green BRI

- ❖ At the 19th CCP National Congress in 2017, President Xi underlined that China was in the “driving seat” when it comes to **international cooperation on climate change**, becoming “an important participant, contributor, and torchbearer in the global endeavor for ecological civilization” (Paris Agreement)
- ❖ At the Belt and Road Forum for International Cooperation in 2017, Xi spoke about the pursuit of an innovation-driven BRI guided by “a new vision of **green development** and a way of life and work that is green, low-carbon, circular, and sustainable”

Top-down & Bottom-up Initiatives

❖ In 2017, four ministries - Ministry of Environmental Protection (MEP), Ministry of Foreign Affairs, National Development and Reform Commission, and Ministry of Commerce - jointly issued the *Guidance on Promoting Green Belt and Road*:

- in 3-5 years, establish a pragmatic and efficient system of *environmental* cooperation and exchange, support and service platforms and industrial and technological cooperation bases, and formulate and implement a series of *environmental* risk prevention policies and measures;

- in 5-10 years, set up a full-fledged *environmental* service, support and guarantee system, and carry out a number of important *ecological* projects that produce desired results (Belt and Road Portal, 2017)

Top-down & Bottom-up Initiatives


- ❖ MEP in 2017: *The Belt and Road Ecological and Environmental Cooperation Plan* to strengthen cooperation on *eco-environmental* protection in order to serve, support, and guarantee the BRI construction towards environment-friendly routes
- ❖ People's Bank of China (PBOC) along with six other government agencies jointly issued in 2016 *Guidelines for Establishing the Green Financial System*, setting out the official definition of green finance, incentives, disclosure requirements, development plan for green financial products, as well as risk mitigation
- ❖ *Environmental Risk Management Initiative for China's Overseas Investment* was issued by the Green Finance Committee in 2017, an organisation affiliated with the PBOC and whose members account for 70% of China's financial assets



Top-down & Bottom-up Initiatives

- ❖ At the international level, as G20 president, China included *green finance* into the G20 agenda in 2016, which was later retained and further explored by Germany in 2017, gradually forming the global consensus on developing green finance
- ❖ China's MEP and the UN Environment is a jointly established *Coalition for Green Development on the Belt and Road* to build an international platform to share the *environment* policies and experiences among the countries involved in the BRI, and promote wider cooperation
- ❖ “Greening the Belt and Road Initiative” Report by the World Wildlife Fund: these initiatives are still in their infancy and all the adopted guidelines are not binding, but they present an opportunity to promote the greening of the BRI and support its contribution to sustainable development (WWF, 2017, p. 11)

Top-down & Bottom-up Initiatives

- ❖ *Sustainable Infrastructure Guidelines for Overseas Chinese Enterprises* developed by China International Contractors Association in 2016 in response to higher market competition and reputational concerns both at home and abroad
 - ❖ Private finance sector, stock exchange: tighter ESG regulations
 - ❖ NGOs: Rivers without Boundaries adopted a *Green Silk Road Initiative Declaration* in 2016
 - ❖ Heightened international media attention (Myanmar: Myitsone dam)
- 

Conclusion

- ❖ First signs of BRI's institutionalization: new aid agency in China
- ❖ Policies of today – future of the BRI
- ❖ Diffused efforts have been undertaken to green China's investments overseas: top-down and bottom-up
- ❖ The BRI is under international spotlight and the Chinese government is well-aware of that fact: tipping point
- ❖ Further investigation of the current policies and their actual implementation are essential to understanding the future trajectory of China's investments policy reform
- ❖ The interpretation of sustainable development concept itself in Chinese academia and policy-making needs further examination; focus on environment less social and governance aspects

Thank you!

E-mail: baloyuna@gmail.com

Twitter: @baloyuna

