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Who is Responsible for Greening the Belt and Road Initiative?

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SYNOPSIS

China's Belt and Road Initiative (hereafter "BRI") has resulted in a wide range of economic and diplomatic initiatives across Asia and other continents. Investment in energy infrastructure is a priority for many countries. Chinese enterprises have been keen to fulfil this need, but have been doing so in a way that does not appear to support sustainable development, especially climate change mitigation. This raises the question of who is responsible for improving the behaviour of Chinese enterprises involved in overseas energy projects: host country governments, Chinese enterprises and banks, or the Chinese government? This policy brief focuses on issues relating to energy projects in Southeast Asia, particularly those concerning environmental and social governance.

KEY POINTS

- The energy components of the BRI are attracting criticism for undermining sustainable development goals.
- Many host governments including those in Southeast Asia are unwilling or unable to put in place robust policies to promote green investments in their energy sector.
- There appears to be little strategic engagement on the part of the Chinese government with host governments in Southeast Asia or with ASEAN as a whole to design appropriate investment programmes in promoting a green BRI.
- Given that most of these Chinese energy enterprises are state-own enterprises, the Chinese government should take more active steps to regulate their activities.

INTRODUCTION

In October 2013, President Xi Jinping announced that China would embark on a massive international economic programme that would combine an overland Silk Road Economic Belt with a 21st Century Maritime Silk Road —collectively referred to as the Belt and Road Initiative (BRI). The stated economic aim of the BRI is to encourage and assist Chinese enterprises to build infrastructure of different types in order to promote economic development and connectivity between China and the countries covered under the BRI.

Favoured projects involve transport, telecommunications and energy, all of which are in great demand in many developing and transition economies. Despite its stated beneficial aims, the BRI has attracted a great deal of unfavourable comment outside China on account of the initiative's perceived geostrategic aims and the risk of sovereign debt default by vulnerable developing countries. In the case of energy projects in Southeast Asia, concerns have been raised regarding environmental and social governance. Much of this energy investment and construction has been criticised as undermining sustainable development goals, including climate change mitigation.

Whilst direct accountability for "green" behaviour lies with the enterprises themselves, the governments of both the host country and China have a responsibility to take active steps to shape corporate behaviour. In the absence of effective policy and regulation on the part of the host country, the government of China should use its role as a shareholder in these Chinese state-owned enterprises to oblige

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them to apply international best practice in the promotion of clean energy.

ANALYSIS

Energy Projects: Not so Green?

The largest amount of overseas investment by Chinese enterprises in recent years has been in coal-fired power plants and hydro-electric dams. They are also involved in power transmission projects and the solar PV sector.

Coal-fired Plants

A large proportion of the investment in coal-fired power is flowing to South and Southeast Asia, notably to Pakistan, India, Bangladesh, Indonesia and Vietnam. In Indonesia, the aggregate capacity of Chinese coal-fired plants in operation or under construction exceeds 6 GW, thus locking the country into higher carbon emissions for decades to come. Of the more than 14 projects and 25 individual units, most are on the island of Sumatra, the others being on Java, Sulawesi and Kalimantan. They range in capacity from 65 MW to 1.05 GW. Those under 600 MW are all sub-critical, whilst the small number of larger units are supercritical and located on the densely populated island of Java. A point of contention has been that Chinese enterprises import many workers from China, thus reducing the involvement of the local Indonesian workforce in power plant construction, arousing the dissatisfaction of local people. Chinese contactors backed by Chinese banks are also deeply involved in constructing coal-fired power stations in Vietnam.

Dam Construction

China dominates the global market for dam construction, notably through the state-owned company, Sinohydro Corporation, which accounts for about 50 per cent of the entire global market in dam construction. Africa has become the main region for Chinese overseas dam construction, but most of China's dam builders are also active in Southeast Asia. The two main locations for these dams are Myanmar and the Mekong River Basin, mainly Laos and Cambodia. In Myanmar, there appear to be as many as fifty Chinese dam projects that are completed, under construction or planned. The most notorious is the 6,000 MW Myitsone dam, where construction work was suspended by Myanmar's government in 2011 due to its social and environmental impacts.

Chinese enterprises are also involved in numerous projects with Laos and Cambodia. The Chinese projects form just part of a massive planned programme of dam construction along the Mekong that has received a great deal of criticism, both at home and abroad. As well as displacing local populations and flooding productive agricultural land, the resultant changes in water flows would likely damage the downstream fisheries which provide the main source of protein for the population. Projects with proposed Chinese involvement include the Sambor dam in Cambodia, originally envisaged as having a capacity of 3,300 MW, and the 770 MW Pak Lay dam in Laos. Both of these proposed dams have encountered stiff local community opposition on social and environmental grounds and, as a result, construction had not started as of late 2018. A weakness of the Chinese approach is that its activities are based on individual projects rather than working with the host governments to design a basin-wide programme that would minimise the negative consequences of dam construction. On their part, host governments are guilty of either not having a strategic plan or not obliging Chinese enterprises to follow the plan.

Power Transmission

As well as building dams, Chinese enterprises continue to construct power transmission lines in mainland Southeast Asia. These are of two types. The first and earlier type transmits power from China to neighbouring countries such as Myanmar (4 lines), Vietnam (7 lines) and Laos (1 line). Chinese enterprises are also building national grids in Cambodia and Laos. Although these transmission lines assist efforts to build a regional power grid in this part of Southeast Asia, all the transboundary lines have been constructed on a bilateral basis and have not been designed to meet the ASEAN strategy to build an ASEAN power grid and a multilateral power market. This is a symptom on China's failure to engage with ASEAN on its regional energy strategy.

Solar PV

The BRI also allows Chinese enterprises to seek new markets for non-hydro renewable energy equipment outside China and it has already driven USD8 billion of solar equipment exports across the world. The European Union

and the USA have been the traditional destinations, but exporters are now broadening their horizons into new markets in developing countries. Southeast Asia should be an attractive destination for China's renewable energy business. Malaysia, Thailand and Vietnam have attracted several Chinese investments into solar photovoltaic (PV) farms. Malaysia is also a destination for Chinese solar PV manufacturers seeking to relocate overseas. Despite the growing number of PV and other renewable energy projects invested by Chinese enterprises across Southeast Asia, their aggregate scale is small compared to large-scale hydro and thermal plants, amounting to less than 1,000 MW, due to unattractive investment conditions.

Who is Responsible?

The governments that host BRI projects clearly have the primary responsibility for formulating national energy policy, determining the desired energy mix, putting in place incentives and regulations, and overseeing project selection and business practices. However, in many cases the host government's willingness and ability to undertake these tasks effectively and to match rhetoric with action is severely curtailed by a number of domestic factors, namely, due to political and economic interest groups, a shortage of human capacity or financial resources, a weak legal system, or the priority given to other more pressing concerns.

As a result, the urgency to build new energy infrastructure in support of economic growth leads to a continued preference for the established sources of energy, be they fossil fuels or large-scale hydro. This is often coupled with an absence of a clear policy and regulatory framework for more sustainable forms of energy such as wind, solar, bioenergy, marine or geothermal energy. Consequentially, Chinese enterprises seeking opportunities obligingly follow host government policies and build coal-fired power plants or large hydroelectric dams as required.

Nevertheless, many of China's energy enterprises have become major international players over the last ten years or so. Thus, it can be argued that it is incumbent upon them to behave like multinational corporations and aspire to follow international best practice. Not only do such corporations develop their own priorities and practices, but they actively collaborate with other corporations to establish organisations of different types to develop new thinking and share best practice. In addition, they should proactively work with host governments to promote investment programmes that support sustainable development goals.

Participation in Industry Initiatives

Examples in the field of sustainable development that involve energy and resource companies include the Oil and Gas Climate Initiative, World Business Council for Sustainable Development and the International Council on Mining and Metals. From China, the China National Petroleum Corporation (CNPC) is a member of the first and second of these, Sinopec is a member of the second, but no Chinese company participates in the third. RE100 is a collaboration of 156 multinational manufacturing and service companies that plan for their energy consumption to be 100 per cent renewable and promote the deployment of renewable energy. Only one Chinese company is a member — the Elion Resources Group, a private enterprise that focuses on ecological restoration and renewable energy deployment.

Financial institutions also play an important role, as they provide loans for many energy projects. More than 90 financial institutions in 37 countries have signed up to the Equator Principles that address environmental and social risk management. To date, only two relatively obscure Chinese banks have joined — the Industrial Bank Co. Ltd. and Bank of Jiangsu. Traditionally, pressure on the leading international energy and mining companies and financial institutions to pursue a sustainable agenda and follow good business practices comes principally from their home government, their shareholders, especially institutional shareholders, and environmental non-governmental organisations, as well as, in some cases, the public in their home or host countries. In addition, an increasing number of international and western financial institutions will no longer support the construction of coal-fired power plants or large-scale hydroelectric dams at all or without very good reason.

Ensuring Good Practice

China's government is — either at the central or local levels —a majority or minority shareholder in most of the energy enterprises engaged in the BRI overseas. Thus, it is incumbent on the government to put pressure on its own enterprises and banks to follow good practice in relation to sustainable environmental and social development. On paper, at least, the government has taken significant steps. The period since 2008 has seen a growing stream of rules and guidelines addressing different aspect of corporate behaviour overseas, notably from the Ministry of Commerce and the State-owned Assets Supervision and Administration Commission, as well as the Shanghai and Shenzhen Stock Exchanges.

In addition, many Chinese industry associations have issued their own standards, guidelines and codes of practice, including the associations for contractors, banks and petroleum and mining enterprises. The China Development Bank and the Export-Import Bank of China have published standards and criteria, though the major commercial banks do not appear to have followed suit. With specific context to the BRI, the office of the Leading Group for the Belt and Road Initiative set up by the Chinese Central government published in May 2017 the *Guidance on Promoting Green Belt and Road* and *The Belt and Road Ecological and Environmental Cooperation Plan*. However, both documents are exhortative and aspirational and appear to lack implementation mechanisms. A number of initiatives have been taken at the international level involving Chinese partners, notably by the United Nations Environment Programme and the United Nations Development Programme. The City of London has seen the establishment of a Green Belt and Road Investor Alliance.

Despite this plethora of documents and initiatives, there seems to be no agency within China that is responsible for ensuring that enterprises follow the relevant guidelines and penalising those that do not. Indeed, the central government struggles even to document the growing number of BRI projects. Neither does there appear to be strategic engagement to design investment programmes that meet sustainable development goals. As a result, it is left to individual enterprises to decide on their approach to sustainable investment.

CONCLUSION

As China's state-owned energy enterprises continue their internationalisation, many are failing to follow good environmental and social practices. Rather, these enterprises are engaged in projects selected by host governments that are often driven by short-term and narrow economic goals. China's government, as majority shareholder to these Chinese energy enterprises, should oblige them to incorporate and prioritise sustainable development in their strategies.

WHAT TO LOOK OUT FOR

- Whether China's government will establish a robust system to promote higher standards of sustainability given its concerns about the criticism of BRI.
- Whether Chinese industry associations will be more pro-active role to drive Chinese enterprises to implement sustainable business practices.
- Whether the Chinese government and enterprises start to engage with host governments and ASEAN at a strategic rather than a project level.

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