

## Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond



### **FACTSHEET 6 – Implications for the ASEAN Region: Opportunities for Civil Society to Respond**

China has been a significant actor in global infrastructure financing for several years. Its policy banks, commercial banks and state-backed investment funds have been supporting outbound infrastructure investment for over a decade. The recent establishment of the major institutions and initiatives - discussed in IDI's *Making Inroads* report - is likely to lead to an even larger presence for China in global development finance in the future.

The AIIB is the first Chinese-initiated multilateral financial institution, and it is promoting itself as a new model, with a management and governance structure that is more streamlined, efficient and suited to Asia's needs than established banks such as the World Bank and the Asian Development Bank. The One Belt One Road initiative reflects a renewed emphasis from China on promoting outbound investment, especially in projects that enhance regional connectivity. Dedicated funds have been created to support One Belt One Road, and existing institutions and companies, including China's Policy Banks, have been quick to express their support and announce plans to increase investment and financing in projects within the One Belt One Road.

#### **Increased Access to Infrastructure Financing**

Asia faces a significant shortfall in funding for infrastructure projects. The governments of most ASEAN countries are clearly eager to attract investment in large-scale infrastructure projects, especially in transport, energy and other projects that facilitate interconnectivity. The AIIB and other initiatives will contribute to addressing this need. The AIIB has not yet started lending, but concerns have been raised that the bank will support high-risk projects that have been passed over by other international financial institutions, such as coal plants and large-scale hydropower dams. However, it remains to be seen if the bank will take on projects deemed too risky by other international financial institutions. The AIIB is developing an energy policy, but until this is released, it is not clear what type of energy projects it will support. The One Belt One Road initiative has already been linked to a number of mega-projects, including the massive Karot hydropower dam in Pakistan and various fossil fuel projects elsewhere in Asia.

At the same time, there is also significant scope for Chinese finance to be directed to green investments. China is a major investor in renewable forms of energy, such as wind and solar, both at home and overseas. A stated goal of the AIIB is to foster "sustainable economic development." Likewise, the core values of the Silk Road Fund and China-ASEAN Investment Cooperation Fund include commitments to sustainability. If funding from these institutions is directed to genuinely sustainable and inclusive development projects, the benefits could be considerable.

#### **Social and Environmental Standards of Chinese Financiers**

The social and environmental safeguards of Chinese financiers are generally basic and often not open to public view and scrutiny. This weakness in environmental and social governance is especially true for China's policy banks. The Eximbank's guidelines are very brief, and the guidelines of the China Development Bank have not been published. The Chinese-ASEAN Investment Cooperation Fund has a more advanced set of environmental and social standards and systems, due to the International Finance Corporation's shareholding in the fund. As for the AIIB, the Environmental Safeguard Framework represents a step forward in

comparison to China's bilateral financial institutions, but civil society groups still have concerns about crucial gaps in the framework.

There are a number of state-issued guidelines that apply to all Chinese companies and financiers when operating overseas, including the China Banking Regulatory Commission's Green Credit Guidelines<sup>1</sup> and the joint Guidelines for Environmental Protection in Foreign Investment and Cooperation, issued by China's Ministry of Commerce and Ministry of Environmental Protection. There are also specific guidelines that apply to companies engaged in overseas mining and forestry projects. However, none of these standards include mechanisms for enforcement, and it is unclear to what extent Chinese companies are actually implementing them in practice.<sup>2</sup>

Strong social and environmental safeguards are essential to any successful development finance institution. Governance challenges are present in many ASEAN countries, and several have poor track records for managing social and environmental impacts of development projects. In a context of weak rule of law and justice systems, vulnerable people and fragile ecosystems depend on the protections afforded by strong operational policies of financiers, which bear responsibility for the impacts of the projects that they fund.

### **The Response of Other Nations and Institutions**

The establishment of the AIIB and the rapid development of other China-led initiatives has raised concerns among some nations that are anxious about China's increasing role and influence in regional and global finance. The United States opted out of joining the AIIB, as did Japan, which subsequently announced several of its own initiatives to fund infrastructure in the region. However, various development finance institutions have taken a collaborative approach and have agreed to co-finance projects with the AIIB, including the World Bank, Asian Development Bank (ADB), and the European Bank for Reconstruction and Development.

Both the ADB and the World Bank are implementing reforms that streamline their lending. The ADB reforms seek to make the bank "stronger, better and faster" by simplifying procurement processes and board approval procedures, while streamlining processes for loans, technical assistance and disbursement.<sup>3</sup> The World Bank, meanwhile, is overhauling its social and environmental safeguard policies.<sup>4</sup> A key goal of its new Environmental and Social Framework is to streamline the preparation and appraisal process to make it easier, cheaper and quicker to approve projects. Although these reforms began prior to the establishment of the AIIB, the shift towards faster lending models is partly motivated by the desire to be more competitive with new development finance institutions. Some of the reforms have been criticized by civil society groups, human rights jurists and social scientists for jeopardizing important environmental and social safeguards, access to information and consultative processes, especially prior to projects being approved by the bank.<sup>1</sup>

### **The Development of China's Role in the ASEAN Region**

China's relationship with some ASEAN nations is complicated by the existence of unresolved territorial disputes. At the same time, President Xi Jinping is eager to promote the concept of the "China-ASEAN Community of Common Destiny." The AIIB, One Belt One Road and other financial initiatives are seen as a means to improve economic and diplomatic cooperation with the regional association. All 10 ASEAN members are also members of the AIIB, and the One Belt One Road passes directly through the region.

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<sup>1</sup> For further discussion of World Bank safeguard reforms see:  
<http://www.inclusivedevelopment.net/world-bank-safeguards-campaign/>.

Numerous leaders and senior officials from ASEAN countries have publicly praised the potential benefits of the AIIB and the One Belt One Road initiative. Regional integration is seen as a key priority and a likely target for infrastructure financing in the coming years. Within the framework of Greater Mekong Subregion cooperation, various institutions seek to support the implementation of projects in areas including transport, energy, telecommunications, agriculture, trade and private sector investment.<sup>5</sup> Project pipelines are developed by individual nations and financed by various institutions, including the World Bank and ADB, but also Chinese policy banks and other investors. The multilateral AIIB, Chinese policy and commercial banks, and investment funds are all likely to support projects supporting regional integration in the coming years.

## **Opportunities for Civil Society to Respond**

The nature of China's key financing institutions and initiatives differ considerably. For example, although led by China, the AIIB is a multilateral institution with a broad membership from Asia and elsewhere. Civil society consultation by the bank has so far been lacking, but the multilateral nature of the bank presents potential opportunities for civil society to engage and influence the bank's operations. In contrast, the One Belt One Road is not an institution, it is an initiative, and therefore there is no central entity coordinating its implementation on the ground, making it potentially harder to engage and influence.

The Chinese investment funds discussed here are wholly run by China. While they are usually not visible on the ground, basic information is available on their websites regarding their investments. Finally, China's policy banks, the China Development Bank and Eximbank, have been active overseas for over a decade, but are generally difficult to approach and tend not to respond to attempts at engagement by civil society. However, this may change over time, and as these banks will continue to be important players in Chinese outbound investment, it is crucial that civil society groups develop their understanding of these actors and strategies for influencing them.

There are opportunities for civil society groups to engage and advocate for more responsible infrastructure investment from China. This is not an easy task, but the following actions may prove useful to civil society groups in Asia and other regions with high levels of Chinese investment:

- **Develop a stronger understanding of Chinese financial institutions and approaches:** As these institutions develop and their operations grow, it is important that civil society groups expand their knowledge and understanding of governance structures, strategies and operations.
- **Develop knowledge of country-level and regional infrastructure development plans:** Chinese financing for infrastructure projects often comes in response to requests from host-country governments. Countries will have their own pipeline of projects for which they will seek financing. By gathering information on these pipelines, it may be possible to predict which projects are coming next.
- **Monitor the institutional development and future activities of AIIB:** The AIIB is now operational but still in its early stages. It is important to monitor its development and the implementation of new and forthcoming operational policies, handling of information disclosure, and establishment of grievance mechanisms. Likewise, its process for project approval should be monitored in order to identify opportunities for influencing decision-making. The bank's multinational membership and its co-financing relationship with the World Bank and the ADB on several projects pose key opportunities for engagement and advocacy.

- **Monitor activities of investment funds:** The Silk Road Fund and the China-ASEAN Investment Cooperation Fund (CAF) are already active in the ASEAN region. It is important to monitor their operations as they expand. Both have websites that can be useful sources of information. Information on these sites is basic, so it is also important to monitor media reports and other sources for information on proposed projects. The International Finance Corporation's significant shareholding in CAF and the adoption by CAF of the IFC's Performance Standards present an opportunity for engagement with the fund, including through the use of the IFC's accountability mechanism, the Compliance Advisor Ombudsman, by project affected people.
- **Raise community awareness:** If you know of or work with communities that may be impacted by activities financed by these institutions, it is important to raise their awareness and understanding of these actors, and what options may be available to them to influence projects and seek accountability and recourse if they suffer harm.
- **Reach out to Chinese financial institutions:** All of the institutions profiled in this paper claim to adhere to principles of sustainable development – a key element of which is public consultation. Civil society groups can seek to engage the institutions to request information and provide input regarding institutional and policy development, as well as to try to influence individual projects.
- **Advocate for improved standards and implementation:** The AIIB's Environmental and Social Framework is in place but has not yet been tested. The Chinese banks and funds discussed here have social and environmental guidelines of varying quality, but the extent to which they are implemented is unclear. Civil society groups can campaign for these guidelines to be expanded, improved, publicized and implemented.
- **Advocate for improved transparency:** With the exception of the AIIB, none of the institutions covered by this paper have made detailed project information available online. Civil society groups can lobby institutions for improved information disclosure.
- **Advocate with international financial institutions collaborating with the AIIB:** The AIIB has begun to co-finance projects with other international financial institutions, including the Asian Development Bank, European Bank for Reconstruction and Development, and the World Bank. Co-financing creates an important entry point to influence the operations and practices of the AIIB by using the engagement platforms and accountability mechanisms provided by co-financiers.
- **Develop information-sharing networks:** The institutions covered by this paper are complex and operate in dozens of countries in Asia and around the world. For this reason, it is important for civil society groups to regularly share information and experiences with partners and peers at the national, regional and international level.

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- <sup>1</sup> For an analysis of the Green Credit Guidelines see: Friends of the Earth US (2015), *Going Out, But Going Green? Assessing the Implementation of China's Green Credit Guidelines Overseas*, Washington DC: FOE. <http://www.foe.org/news/archives/2014-11-going-out-but-going-green>.
- <sup>2</sup> See IDI's forthcoming handbook on Chinese safeguards for a practical guide to these policies and others.
- <sup>3</sup> Asian Development Bank (2015, 16 December), *Press Release: ADB Approves Reforms Package to Speed Loan Delivery, Enhance Operational Efficiency*. <http://www.adb.org/news/adb-approves-reforms-package-speed-loan-delivery-enhance-operational-efficiency> (accessed May 2016).
- <sup>4</sup> World Bank (2014, 2 September), *Review and Update of the World Bank's Safeguard Policies, Proposed Environmental and Social Framework, Background Paper*, paragraph 20.
- <sup>5</sup> Asian Development Bank (no date), *GMS Overview*. <http://www.adb.org/countries/gms/overview> (accessed May 2016).