

Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond



FACTSHEET 1 - Executive Summary

Over the past decade, China has become a major actor in global investment and finance. This has been made possible due to strong backing from the Chinese state and financing from its policy and commercial banks. China's role in global finance has been boosted by a number of major recent developments, the most high-profile being the establishment of the China-led multilateral Asian Infrastructure Investment Bank (AIIB). China has also established various investment funds in recent years, such as the Silk Road Fund, and has injected additional capital into its policy banks specifically to support overseas operations. In addition, through the One Belt One Road initiative, announced in 2013, the Chinese government has renewed its support for outbound investment. These new institutions and initiatives focus heavily on infrastructure development. Given Southeast Asia's economic and strategic importance to China, and its geographical proximity, the region features strongly in China's plans for expanding overseas infrastructure financing.

The Asian Infrastructure Investment Bank

The establishment of the AIIB represents the biggest shake-up of global multilateral development finance for decades. As of mid-2016, 57 countries have signed on as founding members. The AIIB's initial authorized capital is US\$100 billion. China holds the largest number of shares, roughly 30%, and controls over 26% of the voting share. The bank will focus on financing infrastructure and "other productive sectors" in Asia, with the aim of fostering sustainable economic development, creating wealth and improving infrastructure connectivity in Asia.¹ The bank announced its first batch of projects in April and May 2016, including highway projects in Pakistan and Tajikistan, power supply in Bangladesh and slum upgrading in Indonesia.

The AIIB's management is likely to have much greater authority to approve projects than management at international financial institutions such as the World Bank or Asian Development Bank, whose boards provide oversight of such decisions.² The bank's president, Jin Liqun, has stressed the AIIB's commitment to being "clean" and has committed to developing a strong institutional culture based on ethical standards, with zero tolerance for corruption.³ In 2015, the AIIB organized brief consultations with public and private institutions on the development of its Environmental and Social Framework, a process criticized as inadequate by civil society groups. The bank adopted the framework in 2016 along with an interim public information policy, a corporate procurement policy and a code of conduct.

The Environmental and Social Framework commits the AIIB to pursuing sustainable projects, protecting vulnerable groups and ensuring stakeholder engagement. However, the framework contains a number of shortcomings and gaps, and the standards on resettlement and indigenous people both fall below best practice and international human rights standards.

China has been eager to emphasize that the AIIB will complement the work of existing multilateral financial institutions rather than act as a competitor. In 2016, the AIIB signed cooperation agreements with the World Bank, Asian Development Bank, European Investment Bank, and the European Bank for Reconstruction and Development. Various other institutions have indicated that they are willing to work with the bank in the future. Importantly, in cases where the AIIB co-finances projects with the World Bank, Asian Development Bank and similar institutions, the social and environmental standards or safeguard policies of those institutions are likely to apply. Co-financing with the World Bank

or the Asian Development Bank is also likely to mean that if people are harmed by a project, they can file a complaint to the accountability mechanisms of these established institutions.

Since the formation of the AIIB was announced, there has been much discussion about it becoming a rival to the established development finance order. However, it will take time for the AIIB to establish itself and build momentum. Existing international financial institutions have publicly welcomed the AIIB and will co-finance several of its early projects. This provides opportunities for the AIIB to learn from their safeguards and accountability systems. It also represents a potential entry point for civil society groups in the ASEAN region and beyond to engage the AIIB through established channels and communication networks with other financial institutions.

The One Belt One Road Initiative

Announced in 2013, the One Belt One Road initiative seeks to increase interconnectivity between China and Asia, the Middle East, Africa and Europe through the development of transport, energy, trade and communications infrastructure. One Belt One Road promotes investment and cooperation in multiple areas, including agriculture, forestry and fisheries, and energy.⁴ Rather than being a concrete plan or single financing facility, One Belt One Road sets out an overall vision for China's investment in the coming years. The Chinese government has stated that more than 60 countries are involved in the initiative.

China has emphasized the mutual benefits of One Belt One Road and the potential for increased cooperation and investment to benefit countries with underdeveloped infrastructure. The initiative acts as a roadmap for both facilitating China's integration into the global economy and increasing its economic influence within these regions. Many of the countries along this route already have close trade and investment links with China, and the initiative will likely support the deepening of these ties. The One Belt One Road vision stresses the importance of southwest China as a gateway to both the land and oceanic Silk Road routes, including through Myanmar, Laos and Vietnam, as part of a "pivot of China's opening-up to South and Southeast Asia."⁵

Projects within One Belt One Road will require billions of dollars in the coming years. Financing will come from a number of sources, many of which are not new. For example, China's policy banks, including the China Development Bank, have been financing projects within what is now the One Belt One Road route for over a decade. China's commercial banks are also active in many countries along the route, as are Chinese equity funds and investment companies. Several of these entities have established new funds and received additional state funding specifically to support One Belt One Road projects. The AIIB is also likely to finance projects within the initiative's route.

State-Backed Investment Funds

Another important source of financing for China's overseas investment are state-backed investment funds. Two such investment funds operating within the Association of Southeast Asian Nations (ASEAN) region are the Silk Road Fund and the China-ASEAN Infrastructure Investment Fund, both of which have plans to expand operations in the coming years.

The US\$40 billion Silk Road Fund was established in 2014, with the objective of promoting "common development and prosperity of China and other countries and regions involved in the Belt and Road Initiative."⁶ The fund emphasizes investments in major infrastructure projects and connectivity. The Silk Road Fund states that it strives to promote environmentally friendly and sustainable development, and "respects international standards and norms, and follows the laws and regulations of China and the host countries."⁷ However, it is unclear what, if any, systems are in place regarding social and environmental impact assessments and mitigation of projects in which it invests.

The China-ASEAN Investment Cooperation Fund (CAF) was established in 2013 and targets investments in infrastructure, energy and natural resources in ASEAN countries.⁸ It was established with an initial US\$1 billion but has a target of US\$10 billion. The China Export-Import Bank (Eximbank) led the formation of the fund and was the main sponsor, contributing US\$300 million of its starting capital. The World Bank's International Finance Corporation holds equity in CAF and contributed US\$100 million, or 10% of its phase one funding.⁹ During this first phase, CAF invested in 11 projects, including telecoms, mining, transport and energy. China aims to raise US\$3 billion for the fund's second phase.¹⁰

The CAF website states that it "specializes in sustainable investments that not only bring financial growth to the investee company but also significant values to the community."¹¹ In July 2014, CAF issued its Social Responsibility and Environmental Protection Guidelines for Investments in the ASEAN Region, which adopts the International Finance Corporation's Performance Standards. All companies and projects that receive investment from CAF are required to apply the guidelines. The adoption and publication of CAF's guidelines represent a step forward in social and environmental governance that no other Chinese-led funds have taken to date. Although the fund has not established a complaints mechanism, the International Finance Corporation's 10% stake means complaints may be submitted to its accountability mechanism, the Compliance Advisor Ombudsman.

China's Policy Banks

This report for the most part examines recent and ongoing developments in Chinese outbound infrastructure finance. However, China's policy banks have been operating overseas for more than a decade in support of the nation's Going Out strategy. Through this strategy, the Chinese state has promoted Chinese companies to expand overseas, utilizing surplus foreign exchange in order to increase access to global markets, natural resources and technology. The China Development Bank and the China Eximbank in particular have been major drivers of this strategy, investing billions of dollars overseas. Since the announcement of the One Belt One Road initiative, the Chinese government has injected significant amounts of additional capital into both banks.

Both the China Development Bank and China Eximbank have environmental and social standards. The China Development Bank's policies have never been published, but China Eximbank has released a basic environmental assessment policy, which applies to domestic and overseas projects. Both banks have the power to issue warnings to clients that do not appropriately manage environmental and social risks in their projects. However, neither bank publishes detailed project information, and assessments are not conducted in an open and transparent manner. There are also no formal avenues through which affected people can make complaints. This lack of transparency greatly limits the effectiveness of the social and environmental policies of these banks.

Conclusion

China already plays a major role in the development of transport, energy and telecommunications infrastructure in Southeast Asia. China is the top investor in Cambodia, Laos and Myanmar, while its investment in Vietnam, Thailand, Malaysia and Indonesia is also significant and increasing. All ten ASEAN nations signed on as members of the AIIB, and the region also lies within the One Belt One Road initiative. This increased access to infrastructure financing is likely to have significant impact across the ASEAN region.

Asia faces a significant shortfall in funding for infrastructure and most ASEAN governments are clearly eager to attract investment in large-scale projects. The institutions and initiatives discussed here can contribute to addressing this need and could potentially prompt a massive influx of capital into the region, supporting a more rapid roll-out of regional infrastructure investment plans, and contributing to enhanced connectivity between China

and ASEAN as well as among ASEAN member states. At the same time, without adequate transparency, safeguards and accountability, the benefits may be diminished by adverse impacts on people and the environment.

The China-ASEAN Investment Cooperation Fund has adopted policies based on the International Finance Corporation's Performance Standards, and the AIIB has adopted an Environmental and Social Framework, with a grievance mechanism currently under development. However, the social and environmental safeguards of Chinese financiers are generally basic and not open to public view and scrutiny. None of the bilateral financiers discussed in this paper publish extensive project documentation, and none have grievance or accountability mechanisms in place. Given this context, and the fact that the AIIB's safeguard mechanisms remain untested, any increase in infrastructure lending in the region will require close monitoring.

Civil society groups in the region can play an important role in monitoring and engaging with these initiatives. By developing a deeper understanding of these institutions and initiatives, monitoring their development and activities, and raising public awareness, civil society will be better placed to push for more robust standards and increased accountability to protect affected communities and ecosystems.

This factsheet draws on the IDI report [Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond](#). The research and development of this publication was supported by: Heinrich-Böll-Stiftung South East Asia, The McKnight Foundation and Planet Wheeler Foundation

This publication is licensed under Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License 

¹ AIIB (2015), *Articles of Agreement*, article 1.

² Donnan, S. & Sevastopulo, D. (2015, 25 October), *AIIB head vows to be clean, lean and green — and fast*, Financial Times. <http://www.ft.com/cms/s/0/b6f95846-7b0d-11e5-a1fe-567b37f80b64.html> (accessed May 2016).

³ AIIB (2015, 26 August), *Statement by Jin Liqun at a Press Conference in Tbilisi*. http://www.aiib.org/html/2015/NEWS_0826/16.html (accessed May 2016).

⁴ National Development and Reform Commission, Ministry of Foreign Affairs & Ministry of Commerce of the People's Republic of China (2015), *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html (accessed May 2016).

⁵ *Ibid.*

⁶ Silk Road Fund (2015), *About Us*. <http://www.silkroadfund.com.cn/enweb/23775/23767/index.html> (accessed May 2016).

⁷ Silk Road Fund (2015), *Scope of Investment Principles*. <http://www.silkroadfund.com.cn/enweb/23798/23805/index.html> (accessed May 2016).

⁸ China-ASEAN Investment Cooperation Fund, *About CAF: Mission & Vision*. <http://www.china-asean-fund.com/about-caf.php?slider1=1> (accessed May 2016).

⁹ International Finance Corporation (2010, 25 January), *China-ASEAN Fund on Investment Cooperation: Summary of Proposed Investment*. <http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/0/EA30D66D3BCEE0F9852576BA000E3309> (accessed May 2016).

¹⁰ Li, K. (2015, 13 November), *Remarks by H.E. Li Keqiang Premier of the State Council of the People's Republic of China At the 17th ASEAN-China Summit*, Ministry of Foreign Affairs of the People's Republic of China. http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1212266.shtml (accessed November 2015).

¹¹ China-ASEAN Investment Cooperation Fund, *About CAF: Background*. <http://www.china-asean-fund.com/about-caf.php?slider1=2> (accessed November 2015).