

Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond



FACTSHEET 5 – China's Policy Banks

China's policy banks have already been operating overseas for more than a decade in support of the 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. These policy banks have created the foundation for China's rapid ascent to one of the world's top investors.¹ These banks were set up in the mid-1990s in order to separate policy-oriented finance from commercial finance. There are three policy banks: China Development Bank, the China Eximbank and the Agricultural Development Bank of China.² Creating these banks allowed China's "big four" state-owned commercial banks (Bank of China, China Construction Bank, Agricultural Bank of China, and Industrial and Commercial Bank of China) to focus on commercial operations.³

The China Development Bank and Export-Import Bank (Eximbank) have been major drivers of the Going Out strategy, investing billions of dollars overseas. As policy banks, their role is to support the policy objectives of the Chinese government, and both banks will therefore play a crucial role in financing projects within the One Belt One Road initiative (see Factsheet 3). Since the announcement of One Belt One Road, the Chinese government has injected large amounts of capital into both banks. According to media reports, between April and August 2015, China's central bank provided the China Development Bank with US\$94 billion of foreign exchange and Eximbank with US\$90 billion to support overseas projects.⁴



The China Development Bank provides medium to long-term financing for activities and projects that align with China's national economic strategy. In China, this includes infrastructure, industry, and other national priority projects. It also provides financing to education, healthcare, agriculture, low-income housing and environmental initiatives.⁵ The bank plays a major role in China's overseas investment. In 2014, it issued over US\$100 billion in foreign currency loans.⁶ In comparison, the same year, the World Bank Group lent US\$61 billion.⁷

Domestically, the China Development Bank has supported mega projects such as the Three Gorges Dam, the South-North Water Transfer Project, and many power grids, road and high-speed railway projects. In ASEAN, the bank has signed a memorandum of understanding with Thailand's investment board to promote bilateral investment and has provided finance to the controversial China-Myanmar gas pipeline, the Vung Ang coal power plant in Vietnam and the Stung Atai hydropower dam in Cambodia, among many other projects. It has also provided scholarships for students from Laos to study in China.

As the bank continues to develop its international business, One Belt One Road will be strategic focus.⁸ The bank provided 5% of the Silk Road Fund's initial capital and also has specific funds for ASEAN infrastructure investment. For example, in 2014, Chinese Premier Li Keqiang pledged US\$20 billion to support connectivity between China and Southeast Asia,

which included a US\$10 billion special loan set up by the China Development Bank for regional infrastructure development.⁹

China Development Bank Environmental and Social Standards

The China Development Bank claims to have in place standards for managing the environmental and social impacts of its activities. However, it has only published summaries and the full documents are not public. The only information available on these policies is contained within the bank's reports from recent years. According to these summaries, assessments of proposed projects include an appraisal of the environmental and social risks. Loan applications must include environmental impact assessments, and the bank can reject loans on environmental grounds. Importantly, the bank can write environmental standards and costs into loan agreements in order to oblige borrowers to implement their environmental commitments.¹⁰ The China Development Bank is also a member of the UN Global Compact and the UN Environmental Program Finance Initiative. It has not signed up to the Equator Principles, but it has established an internal Equator Principles working group and claims that the principles are being gradually applied in its business development.¹¹

While the bank has made a number of commitments and has in place internal standards for managing environmental and social risks, the assessment process is not transparent. The bank publishes no documents on specific projects, and there is no grievance mechanism or official communication channel for affected people. The bank's website does not provide a comprehensive list of projects. This lack of transparency greatly limits the effectiveness of any social and environmental policies that may currently be in place.



The China Eximbank was established to promote and facilitate the export and import of Chinese products, assist Chinese companies in offshore project contracting and outbound investment, and promote international economic cooperation and trade.¹² Like the China Development Bank, the Eximbank is a major supporter of Chinese firms going out and is involved in projects all over the world. In 2014, the bank dispersed RMB 921 billion (US\$142 billion) in loans.¹³ Much of this lending is focused on infrastructure, industry and trade, including shipping, transport infrastructure, oil and gas, energy, telecommunications, manufacturing, and agriculture projects. Most Eximbank lending is commercial, but the bank is also responsible for China's concessional lending. Concessional lending refers to loans and credits with below-market interest rates and lengthy repayment periods. These loans account for the majority of China's overseas aid.¹⁴

Supporting connectivity with neighboring countries is a key focus of the Eximbank. The bank states that it "pursues business development in keeping with China's new diplomatic strategies," including One Belt One Road.¹⁵ The bank is an important financial actor in ASEAN, where it has provided financing to projects including the Kamchay hydropower dam in Cambodia, the Bac Giang-Lang Son highway and Vin Than coal power plant in Vietnam; multiple dams and transmission systems in Laos; microfinance in Myanmar; and high-end residential developments in Bangkok, Thailand. The Eximbank is the top funder and manager of the China-ASEAN Investment Cooperation Fund (see Worksheet 4). The bank is also heavily involved in China's regional railway investment. In late 2015, the bank signed a lending agreement with the state-owned China Railway Corporation to support its overseas expansion. This agreement includes a line of credit of up to 500 billion yuan (almost US\$80

billion). The China Railway Corporation is involved in proposed railway development projects in Indonesia, Laos and Thailand, which may all receive Eximbank loans through this agreement.¹⁶

Eximbank Environmental and Social Standards

The Eximbank has done more than most Chinese financial institutions to disclose its social and environmental standards and policies. The bank has a basic policy in place called the *Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank's Loan Projects*. The guidelines relate to both domestic and overseas projects and cover project appraisal, environmental assessment, loan management and supervision. The guidelines state that borrowers must follow local environmental laws and regulations when investing overseas. In cases where local systems and regulations are inadequate, borrowers are instructed to implement Chinese standards or "international practices."¹⁷

Eximbank guidelines also briefly mention land and resource rights and state that resettlement must be handled appropriately, and that projects with severe impacts should be open to public consultation. Eximbank has the power to inspect projects during implementation, and if serious impacts emerge during project development or operation, the bank may cease loan disbursement and demand early repayment if the borrower does not take adequate measures to address the problems.¹⁸ Eximbank can also request that clients rectify behaviour, freeze unused credit, issue warnings, adopt restrictions on business, and withdraw credit if borrowers do not comply.¹⁹

Although the 2007 environmental and social guidelines do explicitly address overseas projects and touch on a number of key issues, the document is basic and consists of only 21 brief articles. There are no formal avenues through which the public can request information on specific projects and no formal grievance mechanisms. Project assessment is not open, and project documents are not published by the bank. As is the case with the China Development Bank, the effectiveness of the guidelines is significantly diminished by these shortcomings, but they can still be a useful reference point for communities and civil society groups seeking to engage with the bank or conduct advocacy around Eximbank-funded projects.

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