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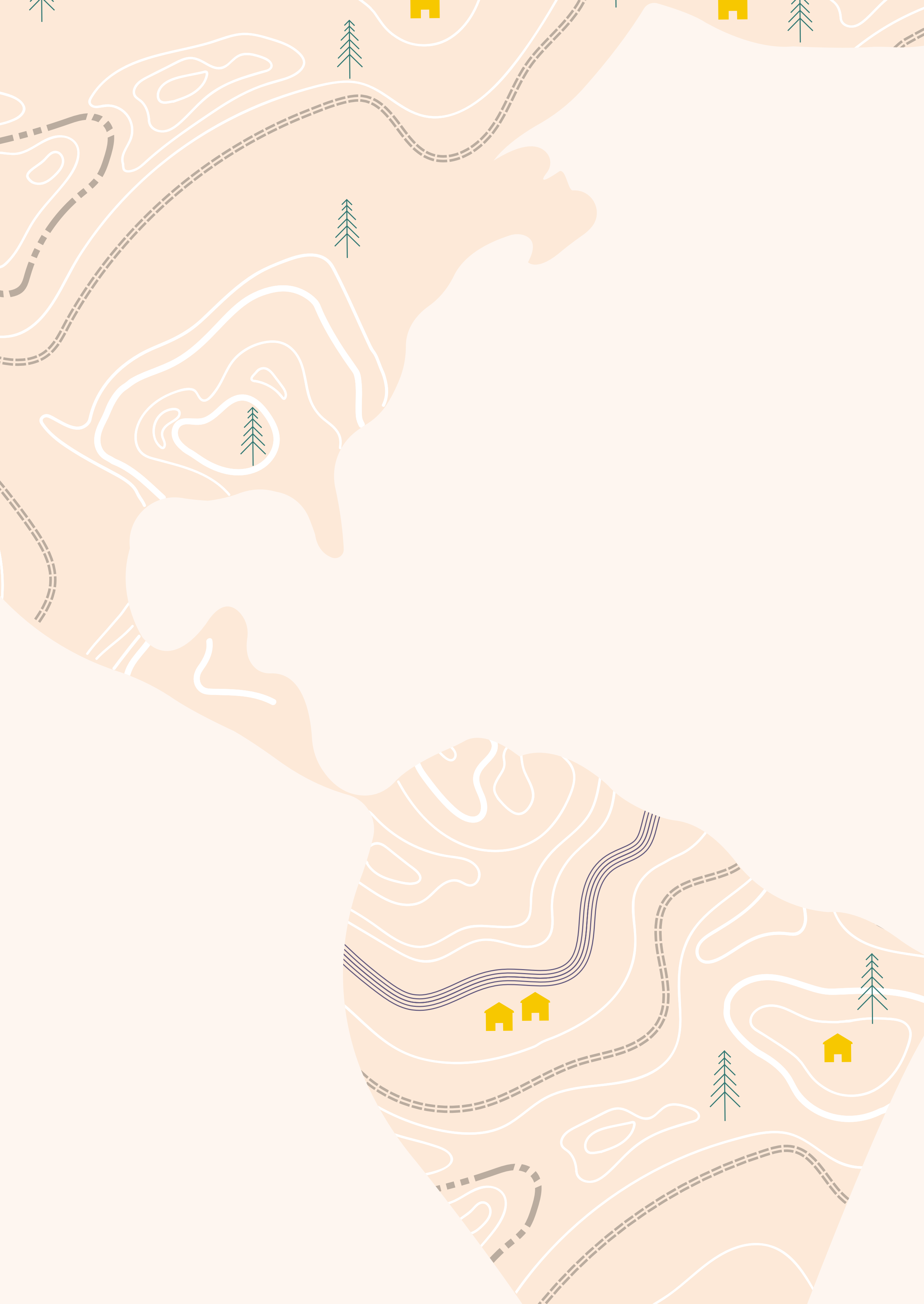

BRIEFS

Solomon Sea

Sailors aboard Arleigh Burke-class guided-missile destroyer USS Rafael Peralta. Source: U.S. Pacific Fleet (CC).

Solomon Islands Strengthens Security Ties with Beijing

In April, the Chinese Government confirmed it had signed a security agreement with Solomon Islands. The agreement was kept secret from the public until late March, when a draft of the document was leaked online. Its sudden revelation caught many off guard, including senior diplomats and other government officials of Solomon Islands, as well as the defence ministers of Australia and New Zealand. According to the text of the draft document, 'China may, according to its own needs and with the consent of Solomon Islands, make ship visits to, carry out logistical replenishment in and have stopover and transition in the Solomon Islands'. This resulted in pushback from the United States and Australia, who raised concerns that China would be able to establish a military base in Solomon Islands, thereby altering the regional security order. As a result, several Western governments scrambled to send diplomatic envoys to the capital, Honiara, and some Australian officials and media warned China to stay out of 'our backyard'. Solomon Islands Prime Minister Manasseh Sogavare and various Chinese government officials have denied any intention of establishing a Chinese military base on the islands. Sogavare also called the Western uproar over the agreement 'insulting' and reaffirmed his country's autonomy in choosing its security partners. The Solomon Islands envoy to Australia later affirmed that, if deployed, Chinese police would be under the jurisdiction of local forces. The decision to strengthen ties with Beijing follows riots against Sogavare's government in November 2021 in which several buildings in Honiara's Chinatown burned down. In 2019, Sogavare formally recognised China over Taiwan in a controversial move that produced popular protests and unlocked millions of dollars in Chinese financial aid. Outside powers have long battled for influence in Solomon Islands, exploiting domestic divisions for geopolitical gain. Responding to the growing Chinese presence, the United States announced in February it would open an embassy in Solomon Islands. *AK*

Overseas Coal Energy Projects Pause as Chinese Financing Pulls Back

Chinese President Xi Jinping's September 2021 announcement to the United Nations that China would stop building new overseas coal-fired energy projects has yielded mixed results on the ground. Notably, several such projects are known to have since stalled as Chinese financial backers have pulled out. At least 15 Chinese-backed overseas coal projects have been cancelled, because of either revised energy policies in host countries or withdrawal of support from Chinese firms. Since the announcement, new guidelines for greening the Belt and Road Initiative (BRI) by China's National Development and Reform Commission have the potential to stop 32 projects that are in the pre-construction phase, according to the Helsinki-based Centre for Research on Energy and Clean Air. For instance, in Bosnia and Herzegovina, Chinese banks have stepped back from the 700 MW Ugljevik III coal power plant project, which has been plagued by environmental-impact issues. In Zimbabwe, RioZim's multibillion-dollar Sengwa coal plant project, which was set to double the country's energy capacity and was seeking finance from the Industrial and Commercial Bank of China and China Minsheng Banking Corporation, is now seeking alternative funders. In response to a letter from a local civil society group, Chinese Ambassador to South Africa Chen Xiaodong recently confirmed China's new policy shift and intention to 'actively promote the development of green and low-carbon energy'. However, many proposed coal projects and those under construction remain in a grey zone, having already secured financing and permits, and might therefore continue to completion. Moreover, while some Chinese banks, such as the Bank of China and the Export–Import Bank of China, have pledged to not provide loans for new overseas coal projects, a study by Just Finance International found that 17 Chinese state-owned enterprises had scored at least 67 unidentified overseas coal projects in 2021 alone, worth almost US$19 billion. *AK*

Controversies around China Eximbank's Loan for Uganda's Entebbe Airport

In November 2021, local media erroneously reported that China would seize Uganda's Entebbe Airport if the Ugandan Government defaulted on a 200-million-USD loan from the Export–Import Bank of China (China Eximbank) in 2015 to expand the airport. These reports were picked up by international media and reignited a hot debate about Chinese predatory lending practices in Africa. The Chinese Embassy in Uganda denied the reports, but it did not disclose the terms of the loan contract, which fuelled further media speculation. In February 2022, AidData, a research lab at William & Mary College in the United States, obtained and published the final, unredacted version of the loan contract, revealing that the airport as a physical asset was never a source of collateral China Eximbank could seize on default. However, the contract did require the borrower to provide a cash deposit in an escrow account to facilitate the repayment of the loan. Moreover, China Eximbank required all revenue generated by the airport be made available for guaranteeing timely repayment of the loan on a priority basis for 20 years, drastically changing the airport's value as a public infrastructure asset that has generated substantial government revenue for 42 years. In March, a Ugandan parliamentary committee investigation into the loan agreement concluded the deal is binding and it would be impossible for the government to pull out without dire consequences. The revelation of the contract's terms sharply contrasts with the Western discourse about 'debt-trap diplomacy', since China cannot seize the airport's physical assets, but it provides additional evidence that Chinese policy banks differ from official Western donors in applying measures more commonly seen in commercial lending to maximise repayment prospects, thus challenging the existing norms in international development finance. *AK*

Labour Issues Plague Serbia's Linglong Tyre Factory

Labour issues have plagued a 900-million-USD Chinese investment in a tyre factory in Serbia. Owned by Shandong Linglong Tyre Company and under construction by China Energy Engineering Group (CEEG), the factory broke ground in April 2019 and is expected to employ 1,200 people and generate 600 million USD in annual revenue once it is completed in 2025. However, recent media and nongovernmental organisation (NGO) reports detail how roughly 750 Vietnamese workers recruited by CEEG have been subject to substandard conditions: working in sandals in freezing temperatures and with inadequate protection gear; living in overcrowded rooms without heating, hot water, or mattresses; not being given sufficient meals; being denied medical treatment for Covid-19 symptoms; and receiving payment months late or for a fraction of their total days worked. Workers also described having their passports withheld and being pressured to sign contracts denying them the right to protest or strike. One human-trafficking organisation said their conditions were 'like a prison camp'. Local activists, environmental groups, and international monitoring organisations have also criticised CEEG and Linglong for withholding information on the factory's potential pollution and for refusing to engage in discussions with residents, and they have accused the companies of circumventing environmental impact assessments. Increasingly reliant on Chinese investment for economic growth, the Serbian Government has prioritised the factory by declaring it a project of 'national interest', granting Linglong 240 acres of land and pledging 85 million USD in state subsidies. President Aleksandar Vučić and Prime Minister Ana Brnabić have criticised labour NGO inspections and insinuated that Western anti-China forces were behind the negative reports about the factory's labour conditions.

The European Parliament passed a resolution in December 2021 expressing 'deep concerns over the alleged forced labour, violation of human rights and human trafficking' of workers at the factory. *AK*

Myanmar Energy Crisis Deepens, Chinese Developers Proceed with Caution

Blackouts have long been ubiquitous in Myanmar—especially when hydroelectric plants run low on water in the dry season. Through the 2010s, the percentage of the population with access to the national electricity grid grew from about 25 per cent to just over 50 per cent, although by 2020, the country still had the largest energy access deficit in Southeast Asia. Today, the country remains predominantly powered by hydro, although the share of domestic gas and liquefied natural gas (LNG) in the electricity generation mix increased considerably during the 2010s. While progress in expanding and diversifying power generation had been made in recent years, in the year since the February 2021 coup d'état, electricity blackouts have again become a daily occurrence across the country, even in the commercial hubs of Yangon and Mandalay.

Chinese companies have played an important role in developing Myanmar's power generation capacity, but since the coup, progress has been limited. Some projects already under way continued slowly, while several of those under discussion have stalled.

In October 2021, two LNG power plants in Yangon—owned and operated by Hong Kong–listed VPower and its joint venture—reportedly halted operations because the projects were no longer financially viable. A month earlier, VPower, which was linked to nine power projects in Myanmar with a gross capacity of 916 MW, announced it was pulling out of two further proposed power stations. The Chinese central state–owned CITIC Group holds a minority share in VPower, and Vpower created a joint venture with China National Technical Import & Export Corporation (CNTIC) to develop three of its Myanmar projects.

A few projects have managed to move forward, including a 135 MW gas power plant being built by PowerChina in Kyaukphyu, Rakhine State, but they are in the minority. In September 2020, a tender for 1 GW of solar power projects was concluded under the now-ousted government led by the National League for Democracy. Various Chinese companies and consortiums won the bids to build 28 of the 29 solar power plants, with just two companies, Sungrow and China Machinery Engineering Corporation (CMEC), winning nine and eight projects each, respectively. However, the coup halted the progress of all but three of these.

In May 2022, the military regime cancelled the other tenders for failure to implement the terms of the tender.

Chinese companies are not the only ones impacted by the political instability brought on by the coup and the international sanctions that followed. Myanmar's oil and gas sector—the major source of revenue for the military junta—also saw investor withdrawals. In January, Australia-based Woodside Petroleum, France-based TotalEnergies, and United States–based Chevron announced plans to pull out of projects in Myanmar. TotalEnergies, which has operated in Myanmar since 1992, co-owns and operates the Yadana gas field in the Andaman Sea and gas transportation company MGTC. Thailand's PTT Exploration and Production (PTTEP) and Malaysia's Petronas withdrew from the Yetagun natural gas project in April, following Japanese Eneos Holdings, which announced its withdrawal a month earlier. Further exacerbating the situation, soaring fossil fuel prices—worsened by the depreciation of the Myanmar kyat and the Russian invasion of Ukraine—have made it difficult for the junta to purchase costly LNG imports.

In May 2022, China's *Global Times* reported that Chinese firms were 'upbeat' about projects in Myanmar, but also quoted company sources who said they were cautious about investments due to political volatility. Adding to the uncertainty, resistance groups have warned Chinese companies working with military-linked entities that they could become legitimate targets. Powerlines have also become a target of some resistance groups, with attacks on lines and substations and troops deployed to protect them. *PHY*

Sri Lanka Seeks to Restructure Debt with China and Other Creditors

In late May, Sri Lanka defaulted on its debt for the first time in its history. Supply chain disruptions from the pandemic and Russia's war against Ukraine, ensuing spikes in commodity prices and interest rates, and dwindling tourism and remittances have strained Sri Lanka's economy and drained its foreign currency reserves. To purchase crucial raw materials such as fuel, food, and medicine, the government suspended repayments on US$7 billion of international loans this year and missed interest payment deadlines on two of its international sovereign bonds, leading various ratings agencies to label the country in default. 'Until there is a debt restructure, we cannot repay,' said Sri Lanka's central bank governor. Individual negotiations have begun with the International Monetary Fund and other creditors, including China, to manage Sri Lanka's approximately US$51 billion in foreign debt.

China has been a major financier of infrastructure projects in Sri Lanka, such as the infamous Hambantota Port, which was not a debt-for-equity swap, contrary to international media reports that made it the poster child for Chinese 'debt-trap' theories (for more details, see the Hambantota Port profile on *The People's Map of Global China*). According to its Ministry of Finance, Sri Lanka owes US$4.3 billion to the Export–Import Bank of China and US$2.8 billion to China Development Bank, making China Sri Lanka's largest bilateral creditor. However, almost 50 per cent of Sri Lanka's debt repayments due in 2021—about US$11.8 billion—was for international sovereign bonds. Beijing rebuffed early requests to restructure existing debts and instead offered to provide aid and additional loans. Despite having joined collective initiatives to alleviate the debt burden of low-income countries, such as the G20's Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments beyond the DSSI, China remains hesitant to articulate a formula for debt restructuring, for fear this would create a precedent for its other debtors to demand similar treatment. While bilateral negotiations with China are ongoing, Sri Lanka has obtained US$3 billion in financial assistance, including currency swaps, credit lines for fuel, and deferred repayment of loans from India. *AK*

More Guidelines Issued for Chinese Overseas Investment

In 2013, China's ministries of Commerce and Environmental Protection issued the first ministry-level guideline specifically focusing on the environmental impacts of Chinese overseas investment and cooperation projects. Since then, a growing body of policies and guidelines has been issued by both state institutions and industry associations, some with application to specific stakeholders, such as state-owned enterprises, and some with a sectoral focus, including guidelines for the overseas rubber and mining industries. Over the past year, several new policies were issued, signalling support for 'green development' principles from leading Chinese government bodies, introducing more detailed guidance, and taking a project-lifecycle approach, with an increased focus on establishing systems at the institutional level to ensure implementation.

In July 2021, China's Ministry of Commerce and Ministry of Ecology and Environment issued the *Green Development Guidelines for Overseas Investment and Cooperation*, calling on companies to integrate 'green development' throughout the various stages of the overseas investment process, properly manage environmental risks, and promote a green transition. Importantly, where host-country standards are inadequate, the guide encourages companies to follow higher international or Chinese standards—a provision that is now becoming the norm in such policies. This was followed six months later by another document from the two ministries, titled *Guidelines for Ecological and Environmental Protection in Foreign Investment Cooperation and Construction Projects*. This guideline provides more detail on environmental risk management throughout the project lifecycle, from planning to decommissioning, including specific provisions for high-risk sectors including energy, transport, and mining. The document references biodiversity assessments, re-emphasises the need for due diligence and environmental impact assessments, and instructs enterprises to enhance communication with local people and listen to opinions and suggestions.

In March 2022, China's state planner and chair of the Belt and Road Initiative (BRI) Leading Group, the National Development and Reform Commission (NDRC), issued a policy document along with three other ministries titled *Opinions on Jointly Promoting Green Development of the Belt and Road*. The opinion discusses aligning the BRI with the Paris Agreement and sheds additional light on how President Xi Jinping's commitment to end building overseas coal plants and support the expansion of renewable energy will be implemented (see Li, Li, and Bo's essay in the current issue of the journal). The opinion states that industry associations and chambers of commerce will be guided to establish 'codes of conduct' for environmental performance in overseas investments, suggesting an increasing role for 'self-regulation' by industry association bodies in strengthening the overall governance of Chinese overseas investment.

Most recently, in June 2022, China's banking regulator issued its Green Finance Guidelines for the Banking and Insurance Industry. This comes almost a decade after the regulator issued its first green credit guideline, which established the concept and instructed Chinese banks to improve due diligence, client compliance review, and project assessment with respect to environmental and social issues. This new guide builds on the 2012 guidelines and various documents that have been published in the interim, with a stronger focus on the establishment of systems for implementing green finance, and crucially, calls for banks to establish grievance mechanisms to manage clients' environmental, social, and corporate governance risks. This could create the foundation for stronger internal systems to prevent and address risks, and mechanisms that can receive and process complaints from communities impacted by projects financed by Chinese banks.

The myriad policy documents and guidelines issued by various bodies over the past decade indicate a recognition of the need to improve management of overseas projects, especially with regards to environmental and social performance. A major challenge in ensuring the implementation of these documents is that for the most part they are not mandatory and do not include enforcement provisions. However, opinions from the NDRC indicate a high-level push to direct investment towards 'green' industries, and the banking regulator's recent guideline demonstrates an increased emphasis on monitoring and a shift towards focusing on systems for implementation, rather than simply setting out basic principles by which overseas financing should abide. MB

Belt and Road Watch

In late 2021 and early 2022, several new countries signed a memorandum of understanding (MoU) to join the Belt and Road Initiative (BRI), expanding China's economic and geopolitical opportunities. The most significant new member is Argentina, whose president, Alberto Fernández, signed an MoU with Chinese President Xi Jinping at the Beijing Winter Olympics in February. Argentina expects its enhanced relations with China will bring about US$24 billion in Chinese foreign direct investment—equal to more than 17 per cent of the total Chinese investment in Latin America since 2005. As the third-largest economy in Latin America, Argentina has been an important source of beef, soybeans, and lithium for China, and joining the BRI may incentivise neighbouring countries to do the same. Nicaragua also joined the BRI, in early January, following President Daniel Ortega's decision in December to cut ties with Taiwan and formally recognise China. In mid January, Syria also signed on to the BRI. Despite instability in Syria from the ongoing civil war and Western sanctions on the Syrian Government, China's interests in the country lie partly in being able to connect trade routes between the Mediterranean, Black, Red, and Caspian seas and the Persian Gulf, and in Syria's oil and gas reserves. To the south, Eritrea joined the BRI in late November 2021. Although Eritrea has been weakened by US sanctions for its role in the Tigray War, its location on the Horn of Africa and the Red Sea is valuable for protecting shipping lanes and China's military base in nearby Djibouti. Elsewhere in Africa, China signed MoUs for the BRI with Guinea-Bissau and the Central African Republic in November, São Tomé and Príncipe in December, and Malawi in March, alongside agreements related to a mix of infrastructure, agriculture, and educational projects. As of March 2022, 149 countries have joined the BRI through MoUs, according to the official Belt and Road Portal. *AK*