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A Decade of Environmental Change

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Ten years ago, China launched the Belt and Road Initiative (BRI) to achieve economic and diplomatic objectives while also providing valuable infrastructure finance to other developing countries. As the world's largest infrastructure-led development initiative, the BRI has inevitably reshaped the physical environment around Chinese-financed projects. As the BRI marks its tenth anniversary this year, it is crucial to examine the initiative's environmental consequences, considering both positive and negative impacts. While Western research and media narratives have primarily focused on documenting negative effects, it is important to recognise that the BRI has brought significant economic benefits to host countries and has the potential to contribute to environmentally sustainable development based on emerging frameworks for a 'green BRI'. In this commentary, we explore the changes in BRI financing trends and their environmental implications, the evolution of BRI environmental regulations, and efforts towards a greener BRI.

Changes in BRI Investment Trends and Environmental Impact

Chinese development financing has been empirically demonstrated as beneficial for economic growth and local livelihoods (Dreher et al. 2021). However, it also presents notable environmental risks. Being the world's largest infrastructure-led development initiative, the BRI's expansion has consequences for environmental conservation, land use, and energy intensity. In particular, in the past decade, the BRI has received scrutiny of its environmental impacts because China is frequently perceived as directing its overseas engagements towards sectors facing greater environmental risk, maintaining lax environmental safeguards relative to other developers of overseas infrastructure projects, or falling short of its own domestic standards (Gallagher and Qi 2021).

Based on existing research (Ascensão et al. 2018), the BRI's environmental impacts can be divided into the following: 1) impacts on the atmosphere, such as contribution to greenhouse gas emissions and air pollution through direct and indirect fossil fuel consumption for infrastructure development; 2) impacts on the biosphere, such as harm to biodiversity and deforestation from land-use change caused by physically large projects; 3) impacts on the hydrosphere, such as water pollution and depletion of water resources; and 4) impacts on the human sphere, such as potential risks to Indigenous lands, community relocation and compensation, and labour relations.

The magnitude of the BRI's environmental impacts has been driven by the scale of China's overseas infrastructure financing. While China's overseas economic engagement pre-dates the BRI, the past decade has seen significant changes in the trends of China's overseas development financing and its impact worldwide. We define China's overseas development finance as lending commitments to overseas public borrowers from its two global development finance institutions, the China Development Bank and the Export-Import Bank of China. Note that these projects represent only a subset of Chinese development finance, not including those supported by lending from commercial banks.

According to the Boston University Global Development Policy Center's *Chinese Overseas Development Finance (CODF) Database*, the number of loan commitments rose significantly between 2013 and 2015, and peaked in 2016, with a general downward trend since (BU GDP Center 2023). In 2020–21, the *CODF Database* recorded 28 loan commitments for a total value of 10.5 billion USD—the lowest level in recent years.

Along with the changing trends in the scale and scope of development finance supporting the BRI are shifts in project size, monetary value, and geographic footprint—emblematic of a more recent 'small is beautiful' approach (Ray 2023). The average loan commitment amount has fallen from 534 million USD to 378 million USD, the average length of linear projects has dropped from 238 kilometres to 157 kilometres, and the average size of area-based projects declined from 90 square kilometres to 16 square kilometres. The decreasing physical footprint has implications for the environment. In the most recent phase of the BRI (2018–21), the geographic footprint of projects supported by Chinese development finance has become less likely to overlap with sensitive territories. In this period, 66 per cent of project finance had no overlaps with critical habitats, Indigenous peoples' lands, or national protected areas. This shift signals a positive trend for conservation and Indigenous peoples' rights in BRI host countries, although future social and environmental risks will have to be closely managed and further decreased.

Evolution of BRI Environmental Regulations

Policies to regulate the BRI's environmental impacts have also evolved over time. China's regulatory approach for overseas investments shifted from *ex-ante* review to management of the overall outbound investment process, inclusive of interim and *ex-post* monitoring and supervision, providing more channels for assessing environmental impacts in project and Initiative-level assessments (Gallagher and Qi 2021). In 2022, the new *Green Finance Guidelines* for Chinese financial institutions issued by the China Banking and Insurance Regulatory Commission (CBIRC 2022) called on banks to set up grievance mechanisms for lending and investment with major environmental, social, and governance impacts. In 2023, the Chinese Chamber of Commerce of Metals, Minerals and Chemicals Importers and Exporters issued a pilot version of sectoral

consultation mechanisms, creating a precedent for stakeholders to voice concerns about project impacts (Ma 2023). However, program evaluation is in its infancy for most BRI projects and the investment review process largely relies on self-disclosure by Chinese firms (Zhu et al. 2021).

Energy infrastructure represents a significant portion of the BRI projects that come with clear environmental impacts. Over the past decade, green BRI policy has shifted from reactive to more proactive, as China seeks to leverage green development as a new growth engine. From 2013 to 2017, the energy sector, especially fossil fuels, was the largest destination for BRI finance. Energy-related BRI projects included exploration and extraction of oil and gas, as well as support for coal-fired power plants, contributing to climate change and local environmental pollution. However, from 2017 to 2020, as China faced growing international pressure, especially related to the power sector, the government reactively issued green BRI policies. While traditional energy cooperation remained important, clean energy projects began to emerge. From 2020 to the present, global climate policy has strengthened, and many BRI countries have started to develop low-cost renewable energy. At the same time, they face pressures from the green energy transition, which requires technological and financial support. China started to issue green BRI policies for more sectors and actors, such as mining and the coal industry.

While the Chinese Government and other actors have become increasingly aware of the BRI's environmental impacts, research suggests that, until recently, the Chinese authorities' environmental policies governing domestic investments were more stringent than those regulating overseas investments. Environmental policies on BRI investment are mostly voluntary as long as firms comply with host-country regulations (Gallagher and Qi 2021). To date, disclosure and transparency of information about China's investments are opaque. If companies fail to comply with host-country regulations, there do not appear to be serious enforcement consequences, though this has been changing with evolving guidelines (NDRC 2022) that contain language about meeting international best practices and exceeding host-country regulations (Nedopil 2023). While remaining voluntary in nature, these guidelines appear to be moving one step further in articulating desirable behaviours.

Towards a Green BRI

The energy sector may be a herald for China's emerging green BRI framework. Until recently, China encouraged overseas investments in both clean energy and fossil fuels and did not specifically restrict or prohibit investment in carbon-intensive industries. Meanwhile, policies specifically aimed at limiting emissions of climate-altering greenhouse gases from China's overseas investments did not exist. However, recent policy announcements underscore the Chinese Government's growing commitment to greening the BRI, starting with the energy sector.

In September 2021 at the Seventy-Sixth UN General Assembly, Chinese President Xi Jinping announced that China would increase its support for low-carbon energy in developing countries and cease building new coal-fired power projects abroad. Official guidance in March 2022 added specificity to the announcement and the types of clean energy to be supported, showing promise for how China could play a more constructive role in host countries' efforts to achieve sustainable development (NDRC 2022).

To sustain short-term economic benefits, countries participating in the BRI should consider leveraging the initiative in their energy transition. In light of the BRI's economic and environmental trajectories, policymakers should leverage existing policy levers and a wide range of stakeholders from China and host countries to catalyse a green BRI. For example, the policy options and stakeholder dynamics for decarbonisation would look very different in pre-industrial and industrial economies. A green BRI will require region-specific policies tailored to varied developmental stages and needs, and the participation of public and private actors to identify effective pathways to sustainable development.

Given the rising importance of climate change as a policy issue, pathways to greening the BRI via low-carbon energy are increasingly urgent. The past decade of environmental change in the BRI saw reduced socio-environmental footprints in project investment levels and more proactive approaches to environmental regulations. Policymakers should consider the past decade of experience in recognising and regulating environmental impacts to form an enforceable green framework for the next stage of the BRI. ●