STANDARD SETTING IN CHINESE-LED INFRASTRUCTURE PROVISION

Ana Cristina Alves, PhD

UM6P-FGSES

THE BROAD VIEWS REGARDING 'CHINESE STANDARDS'

- Construction markets in both regions became more competitive + pushed price tags downwards + greater negotiation leverage with traditional donor...
- Blew new life to projects that western donors were unwilling to fund due to expected low returns
- Promoted creation of thousands of jobs and skills transfer, revitalized national and cross-regional transportation routes, provided much needed sanitation, irrigation, education and health infrastructure...

Literature emphasizes mostly the lower standards of Chinese infrastructure when compared to traditional donors:

- Quality and labour issues, but specifically environmental and social impact, governance and debt sustainability.

4 STAKEHOLDERS AND 1 VARIABLE AT PLAY

The setting of Environmental, Social and Governance standards (ESG) seem to stem from the dynamic interaction of:

2 stakeholders on the Chinese side:

- Financiers (policy banks)
- contractors (SOE's and private sector)

2 stakeholders in the host country:

- Political leadership
- Civil society

1 Variable: institutional capacity and rule of law in the host country

CHINESE FINANCIERS AND CONTRACTORS

- Policy banks (Exim Bank and CDB) play key role in funding projects overseas, but do not play standard setting role for their contractors to same extent of traditional donors (i.e WB, or Japan) – originally designed to facilitate expansion of Chinese industrial complex overseas, rather than meet host countries development needs – this concern emerged a posteriori)
- Hence Chinese contractors exerted from the start greater agency in defining not only the standards of implementation but also the model of Chinese infrastructure funding (mixing export credits & concessional loans to secure large scale projects) (Hong Zhang , 2020)
- Infrastructure funding agreement technically inter-gov deals signed by the borrowing country and the Policy Bank, but Chinese prospective contractor plays key role in lobbying the two sides and submitting the loan request (Bian, 2013)
- Easy and quick access to credit > Important competitive edge (dominant position in both markets) but also source of many problems

CHINESE FINANCIERS AND CONTRACTORS

- Chinese infrastructure lending is largely pulled by contractors' interests (expand market share and revenue) rather than project viability considerations > Ch policy banks are more likely to fund risky projects > negative impact on balance sheets and Beijing's reputation ("debt trap diplomacy")
- Owing to key role in enabling access to credit, Ch contractors are exempted from rigorous tendering processes > increasing perception of corruption and collusion with political elites in host countries
- Ch Policy Banks trying to reign in self-interest of contractors and improve loans performance through new regulations (social, environmental and anti-bribery). However, their capacity to assess the projects in light of these regulations is compromised by political considerations (unlikely to cancel a project that has the official stamp of Beijing) (logic of Appropriateness, Gong Xue, 2021) and weak enforcement mechanisms (almost on a voluntary basis)

POLITICAL LEADERSHIP AND CIVIL SOCIETY IN THE HOST COUNTRY

- Many analysts highlight the agency of ruling elites in shaping standards of implementation - mostly driven by short term domestic political agendas (elections), financial greed or the urge to consolidate control over remote areas of the country.
- Social stakeholders do not seem to have much influence in the drafting of the overarching agreements and project planning, but their imprint can be felt strongly at the implementation stage through contestation processes over environmental, labour, resettlement compensation or corruption matters - in some cases leading to long delays or cancellation of projects.
- It appears thus that ruling elites tend to often push standards down while civil society interventions are more likely to bring them up.
- Hence countries with strong social activism are more likely to experience higher standards of Chinese-led infrastructure, but also delays and cancellations.

CHINESE CONTRACTORS AND HOST COUNTRIES RULING ELITES

- The interaction between these two stakeholders is arguably the more consequential for implementation standards. Unfortunately, more often than not it has been tainted in both regions by:
- lack of transparency of loan agreements
- Irregularities in project contracting (bidding and procurement) - common practice to fast-track projects
- Corruption allegations (substantially inflating price tags)

1 VARIABLE: HOST COUNTRY INSTITUTIONAL CAPACITY

- While there has been a clear learning curve on the part of Chinese contractors regarding ESG and their regulations are now on par with western companies, their default behaviour (given the absence of enforcing mechanisms) is:
- to adapt to host countries ESG regulations and practices when they are strong or take advantage of the loopholes when they are weak, rather than following the higher standards of their home country regulations.
- Meaning states with stronger institutional capacity and rule of law are more likely to experience higher standards of Chinese-led infrastructure

***

The contradictions within the Chinese system coupled with the differences in institutional capacity of host countries, explain thus the variation of Chinese led-infrastructure standards observed across host countries and the disconnect between China's official discourse and the outcomes on the ground in spite of Beijing's tightening regulating efforts over the years.

THANK YOU!

Cristina.alves@um6p.ma