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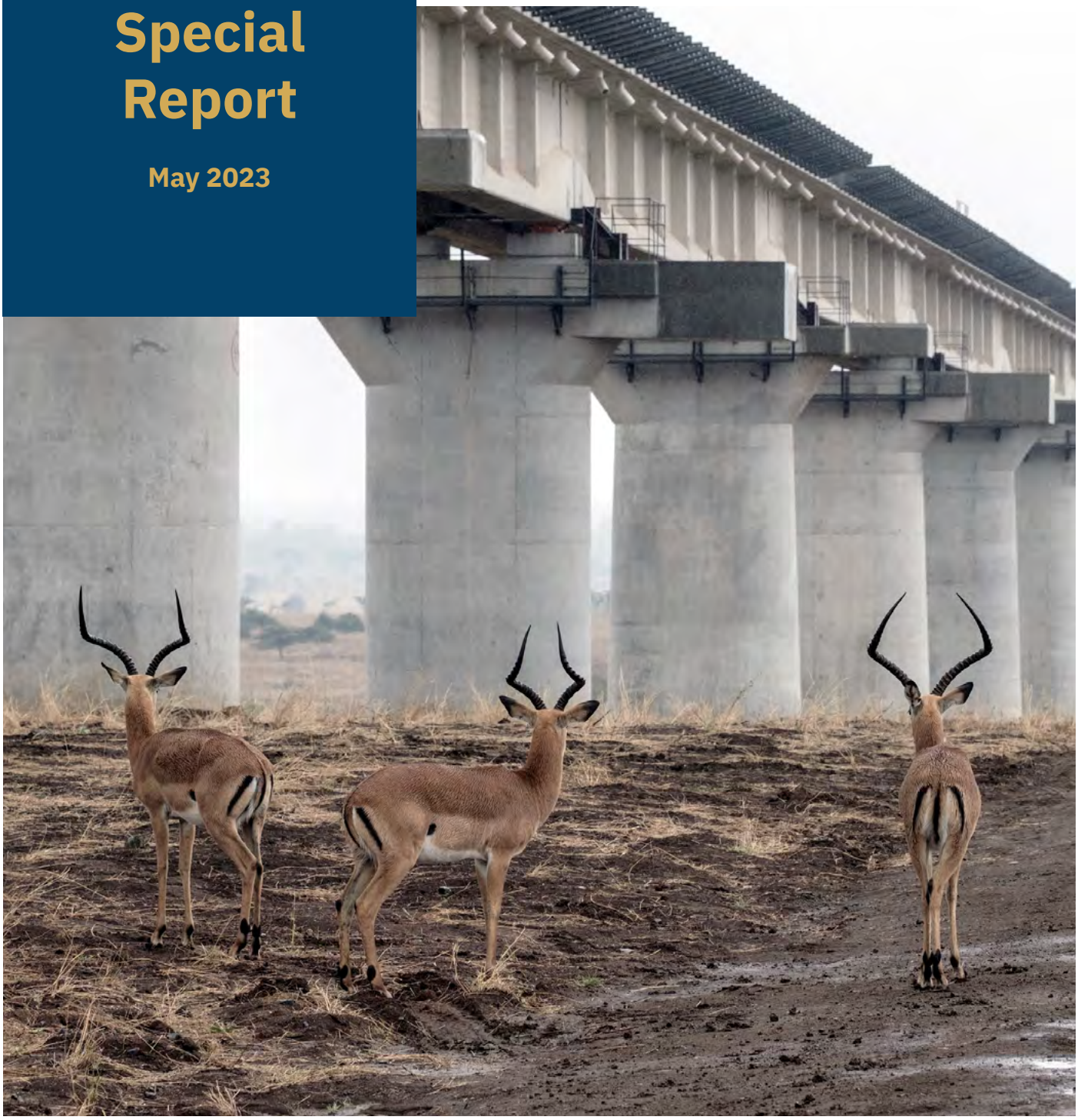

Comparing Environmental, Social and Governance Impacts of Chinese-led Infrastructure Projects in Africa and Southeast Asia

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African perspectives
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Executive summary

Over the past two decades, China has emerged as a major funder of large-scale hard infrastructure across the Global South. Fuelled by financing from Chinese state (policy) banks and the expertise of Chinese companies, Chinese actors have literally changed landscapes across the Global South. While many of these projects have sparked development, many have also triggered significant and complex problems, owing to a mix of factors involving Chinese companies and a wide range of local actors, from recipient governments to local communities. This report is the result of a three-year, two-phase research project comparing the environmental, social and governance (ESG) impacts of Chinese-led projects in Southeast Asia and Africa. It maps the evolution of ESG regulation within China and outlines the complex interaction between Chinese companies and recipient countries. It then uses case study 'snapshots' to identify cross-cutting dynamics that have complicated these projects across both regions. The report concentrates on the following fields: tenders and ESG impact assessment processes; land acquisition, community relocation and livelihood destruction; debt transparency and financial governance; inter-authority conflict and local governance in recipient countries; and planning for long-term economic viability and job creation. It concludes with recommendations to policymakers and other stakeholders.

Abbreviations & acronyms

AAE-1	Asia-Africa-Europe-1 Undersea Data Cable System
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
AU	African Union
B2B	business-to-business
BRI	Belt and Road Initiative
CCCC	China Communications Construction Company
CDB	China Development Bank
CFOCN	Fibre Optic Communication Network Co., Ltd
CGWIC	China Great Wall Industries Corporation
CHNG	China Huaneng Group
CRBC	China Road and Bridge Corporation
CREC	China Railway Engineering Corp.
CSR	corporate social responsibility
CSRC	China Securities Regulatory Commission
CTHL	Cambodian Tatay Hydropower Ltd.
DAC	Development Assistance Committee
EIA	environmental impact assessment
EPC	engineering, procurement and contracting
ESG	environmental, social and governance
ESIA	environmental and social impact assessment
EVNI	Electricity Vietnam International
China Exim Bank	Export-Import Bank of China
GDI	Global Development Initiative
GDP	gross domestic product
HEI	Hydrolancang International Energy
HRW	Human Rights Watch
HSR	High-Speed Railway
ICT	information and communications technology
JICA	Japan International Cooperation Agency

KPA	Kenya Ports Authority
KCIC	Kereta Cepat Indonesia China
MEE	Ministry of Ecology and Environment
MOFCOM	Ministry of Commerce
NDRC	National Development and Reform Commission
NICTBB	National Information Communication and Technology Broadband Backbone
NGO	non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
PBOC	People's Bank of China
PPM	Project-affected People's Mechanism
SASAC	State-owned Assets Supervision and Administration Commission
SGR	Standard Gauge Railway
SOE	state-owned enterprise
UN	United Nations
US	United States

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SAIIA is an independent, non-government think tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs, with particular emphasis on African issues and concerns.

SAIIA's special reports are fairly lengthy analytical papers, usually reflecting on and analysing the findings of field research.

Cover image

Impala walk near the elevated railway that allows movement of animals below the tracks at the construction site of Standard Gauge Railway in Nairobi National Park, Kenya, on November 21, 2018 (Yasuyoshi Chiba/AFP via Getty Images)

Please note that all currencies are in US$ unless otherwise indicated.

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CHAPTER 1

Introduction

One could argue that China's massive funding of infrastructure across the Global South not only reshaped numerous national development trajectories but also changed the global development landscape itself. At the height of its funding activities in the mid-2010s, China was lending 2.5 times more to Africa than other bilateral lenders combined.[1] This wave of funding carried Chinese contractors (many of which are large state-owned enterprises [SOEs]) to the forefront of the global engineering, procurement and contracting (EPC) sector. As these companies embarked on projects in countries around the world, their presence started raising new questions about the nature of South–South development cooperation, and how that differs from development conventions that preceded China's global rise.

Much of the infrastructure constructed during this phase was large in scale, both physically and financially. In the former sense, this building of dams, ports, roads, rail networks and so forth had immediate repercussions for communities in the target areas. As more Chinese contractors built more projects, environmental concerns and disputes with local communities around the disruption of livelihoods, lost land tenure, and expectations versus the reality of job creation started gathering attention. Such disputes did not happen in a vacuum. They were profoundly affected by the presence of national recipient governments and various subnational actors in these countries. These included local government, customary authorities, special purpose vehicle companies set up to administer the projects, civil society and the media.

Concerns about environmental and socio-economic issues were soon joined by questions on governance. It became clear that recipient-country regulation was key to managing and mitigating some of the problematic impacts of these projects. Equally crucial was the issue of whether and how existing legislation was implemented. Beyond these on-the-ground governance factors, financial governance came to the fore as a central concern. The twin factors of the COVID-19 epidemic and the Ukraine crisis precipitated sharp economic downturns in developing countries, and rising inflation in response to the crises prompted interest rate rises in the US, which weakened local currencies. The result was that several countries crept closer to debt distress. This heightened focus on the role of Chinese loans in these crises. The opaque nature of many such contracts came in for much criticism, and legislatures in countries such as Uganda, Kenya and Malaysia also interrogated the role of recipient governments in exacerbating that opacity while profiting from it.

1 Nancy Lee and Mauricio Cardenas Gonzalez, "Stuck Near Ten Billion: Public-Private Infrastructure Finance in sub-Saharan Africa", Center for Global Development, February 9, 2022.

Partly in response to these issues, China has sharply curtailed its lending for large-scale infrastructure, focusing instead on smaller projects (frequently in the fields of renewable energy, health, and information and communications technology [ICT] provision).[2] It is clear that while Chinese lending for infrastructure to the Global South is changing, it is not disappearing. At the same time, China is increasingly emphasising its role as an emerging setter of development norms. President Xi Jinping announced the end of Chinese state funding for coal-fired electricity plants in 2021,[3] and the Ministry of Commerce (MOFCOM) also released new environmental guidelines for Chinese contractors involved in transnational projects.[4] Chinese-led development financing institutions (notably the Asian Infrastructure Investment Bank [AIIB])[5] are also imposing more stringent standards on projects they fund around the world.

However, we are still far away from the establishment of global environmental, social and governance (ESG) standards that match the global presence of Chinese contractors. After close to three decades of international expansion, Chinese construction firms work around the world, frequently implementing similar projects in different regions of the Global South. However, up to now, studies of ESG implementation in Chinese-led projects have tended to focus on these regions in isolation. This project takes a different, doubly cross-cutting approach.

First, it takes a comparative perspective, bringing Africa into conversation with Southeast Asia. This approach is an acknowledgement of the reality outlined above: as the activity of Chinese contractors becomes increasingly global, it is important to show how similar dynamics are cropping up in different regions, as well as to learn from the different approaches local actors have employed in response. This comparative approach is also aimed at sparking conversations between policymakers in different regions. Capacity relating to China within developing country governments remains low around the world, in contrast to the ongoing importance of China as a development partner. Our comparative approach is aimed at encouraging South–South peer learning between Southeast Asia, Africa and beyond.

Second, building on the work that preceded this phase of the project (see below), we steer away from comparisons based on infrastructure sector. Instead, we use comparisons between different infrastructure sectors to identify cross-cutting dynamics occurring in the varied field of Chinese-led infrastructure provision. This approach is the natural follow-up to the project's earlier sector-specific comparisons that concentrated on Southeast Asian and African case studies of the ESG implementation of Chinese-led coal-fired electricity, hydropower, ports, rail and ICT projects. In the current report, our aim is to spark

2 See, for example, Xinyue Ma, Cecilia Han Springer and Honest Shao, "Outlier or New Normal? Trends in China's Global Energy Finance" (GCI Policy Brief 011, Boston University Global Development Policy Center, Boston, March 2022).

3 Sarah Schonhardt, "China Says It Will Stop Financing Coal Power Abroad", *Scientific American*, September 22, 2021.

4 People's Republic of China, Ministry of Commerce, "Green Development Guidelines For Overseas Investment And Cooperation (English Translation)", Client Earth, July 21, 2021.

5 Asian Infrastructure Investment Bank, "AIIB Strengthens Its Commitment to Environmental and Social Standards", Press Release, May 21, 2021.

conversations around the broader dynamics that keep recipient countries from getting the full benefit of Chinese-led infrastructure.

We concentrate on five cross-cutting factors that emerged from our multi-sector analyses:

- tender and environmental impact assessment (EIA) processes;
- land acquisition, community relocation processes and livelihood disruptions;
- debt transparency and problematic financial governance;
- inter-authority conflict and local governance issues in recipient countries; and
- planning for long-term economic viability and job creation.

The findings cast light on the important role played by recipient governments and sub-state actors (including regional governments, SOEs, military officials, etc.) in project implementation. This focus in turn shows that blame for ESG failures in Chinese projects frequently fall disproportionately on Chinese contractors (blameworthy as some of them are) while local stakeholders do not receive as much scrutiny. In this sense, this report is aimed at informing the current discussion of recipient agency in relation to Chinese-led infrastructure provision, an issue that has been particularly prominent in Africa–China scholarship.

Project background

The project proceeded in two phases. First,[6] the South African Institute of International Affairs collaborated with researchers in Africa and East and Southeast Asia to produce comparisons between the ESG implementation of Chinese infrastructure projects in these regions. In order to ensure comparability, we situated case studies within specific infrastructure categories, and as far as possible aimed for countries with comparable levels of development, although that was not always possible. Each study also included a summation of the evolution of sector-specific ESG standards within China to provide an overview of the differences and overlaps between domestic and foreign implementation standards faced by Chinese contractors.

This research took place during the height of the COVID-19 pandemic, which imposed a hybrid methodology of desk research and limited fieldwork. The findings were published as five related policy briefs in late 2021, each focusing on a comparison between one African and one Southeast Asian case study within a single infrastructure category.[7]

6 This initial phase of the project (2020–2021) was enabled by a research grant from the UK Foreign Commonwealth and Development Office (FCDO). SAIIA thanks UK FCDO for its support.

7 These research outputs can be accessed at SAIIA, "China Infrastructure Cooperation", https://saiia.org.za/tag/china-infrastructure-cooperation/

The current report draws more broadly from the fieldwork and case study reports on which the earlier policy briefs were based. Rather than focusing on sector-by-sector comparability, it tries to de-silo the case studies from their sector-specific settings in order to provide a view of the broader landscape of Chinese-led infrastructure provision across the Global South. This approach is by its very nature a little messier and does not allow the same neat sector-by-sector comparability. Instead, we hope it will be more revealing of broad dynamics that complicate the quest for development leadership that underlies Chinese strategies such as the Global Development Initiative.

Report structure

The report starts with an introduction to the evolution of ESG standard-setting within China. This account tracks how the conceptualisation of ESG regulation shifted according to China's own development trajectory, and outlines the domestic context within which Chinese contractors operate. It also serves as a comparative benchmark to highlight differences and similarities occurring in other regulatory contexts around the world.

The following section focuses on the experiences of Chinese contractors in Africa and Southeast Asia. It sketches the parameters and limits of their role as contractors in broad terms. It also describes features that characterise recipient-country environments, and identifies some of the key dynamics in the interaction between Chinese and local stakeholders that affect ESG implementation.

This through-line is developed in the subsequent section, which gives a series of snapshots of different Chinese-led projects in Southeast Asia and Africa. These draw on different infrastructure sectors, from ICT networks to dams to rail networks in various countries, including Kenya, Cambodia, Zimbabwe and Indonesia. They are not presented as comprehensive case studies (for those, please refer to the policy briefs published during the first phase of the project). Rather, this section offers brief accounts from Africa and Southeast Asia illustrating the five cross-cutting dynamics set out earlier.

The section is arranged thematically and each cross-cutting dynamic is highlighted by both African and Southeast Asian examples. These are not intended to be read as free-standing comprehensive case studies. Rather, they should be seen as illustrative snapshots that together provide a broader picture of the factors that can hamper effective ESG implementation in Chinese-led projects in Africa and Southeast Asia, as well as in other parts of the Global South.

After these case studies, the report sets out overlaps and differences in the case studies. It tries to both highlight shared dynamics between the regions in question and identify how the dynamic was worsened or ameliorated in different cases. This section is aimed at encouraging South–South communication and peer learning in relation to working with Chinese contractors.

Finally, the report makes policy recommendations aimed at addressing some of the dynamics identified in this study and improving future ESG implementation in Chinese-led projects in the Global South. These recommendations are addressed to different stakeholders, and are aimed at encouraging dialogue among different Global South stakeholders including between government and civil society actors.

CHAPTER 2

ESG regulations and market in China

The Chinese government has stepped up its regulatory efforts to establish its ESG rating and disclosure system. The ESG market has been flourishing, in terms of both the rising number of players (both SOEs and private firms) and the rapid expansion of green finance. The pursuit of carbon-peak and carbon-neutrality targets is the primary driver behind the green transition of the Chinese economy.

ESG regulatory framework on overseas investment projects

Over the past two decades, Chinese regulators have promulgated more than 60 policies and regulations relating to the promotion of ESG practices. This shows that China has gradually cultivated voluntary practices of corporate social responsibility (CSR) through a pathway towards a more integrated ESG regulatory framework. The ESG regulatory framework consists of three key components: ESG disclosure, ESG ratings and ESG finance.

While more than 10 government ministries and commissions are involved in ESG regulations, the following four government bodies are particularly important in regulating ESG practices in overseas investment.

The Ministry of Ecology and Environment (MEE) has issued a series of policy documents that propose specific requirements regarding the environmental information disclosure of Chinese companies in their domestic and global businesses. The National Development and Reform Commission (NDRC) takes charge of the overall management of investment, works with other agencies to decide the government's mandate in approving investment projects and promotes the implementation of sustainable development strategies. The MOFCOM is the most important government body overseeing Chinese overseas investment. The State-Owned Assets Supervision and Administration Commission (SASAC) plays a central role in regulating SOEs' ESG practices and disclosure.

In 2013 the MOFCOM and the Ministry of Environmental Protection[8] issued the first guideline on environmental protection in overseas projects. In 2017, four years after the Belt and Road Initiative (BRI) was launched, four government ministries, including the MEE, NDRC, MOFCOM and the Ministry of Foreign Affairs, jointly issued the 'Guidance on Promoting Green Belt and Road'. It articulated clear requirements on the environmental management of BRI investments and projects.

8 The Ministry of Environmental Protection was renamed the Ministry of Ecology and Environment in 2018.

In July 2021 and January 2022 the MOFCOM and the MEE promulgated two guidelines to encourage Chinese companies engaged overseas to improve their environmental management throughout a project lifecycle. This is by far the most comprehensive environmental guideline on overseas projects, as it provides additional detail on environmental risk management throughout the project lifecycle, from planning to decommissioning. The guidelines state that Chinese companies should follow host-country environmental standards or, when these are inadequate, international best practice or higher Chinese standards.

Furthermore, the guidelines provide specific environmental risk management recommendations for four high-risk sectors – energy, petrochemicals, mining and transport. In the energy sector, Chinese companies should focus on clean and renewable energy projects and hydropower projects should reduce adverse impacts on aquatic biodiversity. In the petrochemicals sector, Chinese companies should focus on controlling pollution and greenhouse gas emissions and preventing environmental accidents. In the mining sector, they should focus on pollution control measures and waste disposal, while in the transportation sector, infrastructure projects should avoid nature reserves and important wildlife habitats.

In March 2022, four ministries jointly issued an 'Opinion on Jointly Promoting BRI Green Development'. It affirms that China will stop building new coal-fired power projects abroad and will proceed prudently with coal projects currently under construction. It sets 2025 as the deadline for significant capacity improvement for environmental risk prevention in overseas projects. The country will promote collaborative development, as well as the fulfilment of social responsibilities by financiers, developers and contractors.

Some quasi-public organisations have also released operational guidelines for ESG compliance. For example, the China International Contractors Association published the 'Guide on Social Responsibility for Chinese International Contractors' in 2010 to steer the social responsibility practices of Chinese international contractors. The guide was updated in 2021 with a focus on ESG. Detailed ESG guidelines for overseas contractors aim at reduced risks, improved co-financing with international partners and the sustainable development of overseas markets.[9] The updated guide states that in order to fulfil their social responsibilities, Chinese international contractors should follow five principles. These are:[10]

- observing the laws and regulations of host countries and the Chinese government;
- respecting stakeholders;
- operating transparently and ethically;
- pursuing sustainable development; and
- continuously improving performance.

9 China International Contractors' Association, "Guide on Social Responsibility for Chinese International Contractors", July 2021.
10 CICA, "Guide on Social Responsibility".

The BRI International Green Coalition – another quasi-public organisation that partners with international development and environmental organisations – issued a series of infrastructure investment guidelines starting in December 2020 known as the *Green Development Guidance*. These include an environmental classification system (the 'Traffic Light System') that codes projects as green (beneficial), yellow (acceptable) or red (unacceptable) based on project characteristics and mitigation measures.[11]

ESG disclosure and criteria

Regulations on ESG disclosure in China are defined by three policies and guidelines. Firstly, the Environmental Protection Law clarifies key polluting companies' responsibilities in terms of environmental information disclosure. Secondly, the China Securities Regulatory Commission (CSRC) issues policies regulating standards, content and formats for information disclosure of listed companies. Finally, the Shanghai Stock Exchange and Shenzhen Stock Exchange issue guidelines on listed companies' environmental and social impact assessment (ESIA) disclosure, which further regulate aspects of environmental protection and pollution reduction disclosed by these listed companies.

Thanks to these regulations, ESG disclosure is structured via mandatory disclosure requirements on pollutants, voluntary guidance by stock exchanges and voluntary ESG disclosure by listed companies through annual financial and sustainability reports. With the proposed goal of peak carbon emissions in 2030 and carbon neutrality in 2060, the scale of information disclosure has gradually expanded from monitoring greenhouse gas emissions to covering all aspects of climate risks in order to focus on multiple dimensions of sustainability. As a result, Chinese companies are rapidly moving toward reporting on their ESG policies and practices. By the end of April 2022, about 1 400 companies listed on the Shanghai Stock Exchange disclosed their ESG reports, accounting for about 30% of all listed companies.[12]

In June 2022 the China Enterprise Reform and Development Society, a think tank overseen by SASAC, published the first corporate ESG disclosure guidance, aiming to establish uniform disclosure indicator systems tailored to China-focused ESG priorities.

The guidance has three primary indicators, 10 secondary indicators, 35 tertiary indicators and 118 quaternary indicators. Most of the indicators align with ESG issues highlighted in international disclosure standards such as climate change and labour rights. The guidance sets out standards for the disclosure of quantitative data related to environmental sustainability such as greenhouse gas emissions and wastewater pollutants. The development of this corporate standard demonstrates China's intention to develop an ESG

11 BRI International Green Development Coalition, *Green Development Guidance for BRI Projects Phase II Task I: Application Guide for Enterprises and Financial Institutions* (Beijing: BRIGC, 2021).

12 "Report on ESG Information Disclosure for A-listed Companies in 2021" [translated from the Chinese], *Sina.com*, September 16, 2022.

standard that is suitable to its national development goals and that will achieve sufficient 'quality and quantity' in ESG investment and financing.[13]

The guidance adopts a flexible 'comply or explain' approach, where companies are required to either comply with sustainability requirements or provide an explanation on why they are not in compliance. This compliance is thus voluntary, but it might serve as a stepping stone to establishing a mandatory ESG disclosure system.

While using international standards as a benchmark, the guidance is formed in a specifically Chinese context and references compliance with existing domestic regulations

While using international standards as a benchmark, the guidance is formed in a specifically Chinese context and references compliance with existing domestic regulations. The environment has been a clear focus for China's policymakers – an emphasis that mirrors the government's determination to improve environmental protections. In the wake of its carbon-neutrality commitment, the government has also started to focus on climate change, aligning the environmental agenda more closely with global interests. Other goals include reducing poverty and inequality and ensuring responsible consumption and growth.

SOEs are the primary target of ESG disclosure. SASAC aims to fully cover the ESG special report disclosure of listed companies controlled by SOEs by 2023. It also set a goal for SOEs to decrease their energy consumption and CO_2 emissions per unit of output value by 15% and 18% by 2025 from 2020 levels, respectively. At state-owned electricity generation companies, renewable energy is supposed to account for over 50% of total power installations by 2025.[14] A comprehensive ESG rating system is also being prepared for SOEs. According to a senior SASAC official, the proposed ESG rating system should address three principles. First, it should take into account the targets of carbon peak and carbon neutrality, as well as rural revitalisation, thus facilitating the quality development of the Chinese economy and society. Second, it should be compatible with international standards and enable mutual recognition of the rating. Third, it should be forward looking while taking into account the specifics of different sectors, sizes and development phases.[15] In other words, China will design an ESG rating system to cope with the surge in demand for ESG integration, but one size does not fit all.

13 Yang Limei and Janna Lipenkova, "China's ESG Journey", Equintel, July 29, 2022.

14 State-owned Assets Supervision and Administration Commission, "Guiding Opinions on Promoting High-Quality Development of State-Owned Enterprises, And Improving Carbon Neutralization" [translated from the Chinese], December 31, 2021.

15 SASAC, "State-owned Assets Supervision and Administration Commission of the State Council Includes ESG in the Key Tasks of Promoting Corporate Social Responsibility" [translated from the Chinese], July 21, 2021.

Despite differences between the West and China, there is significant convergence in ESG goals and indicators. In 2020 the EU and China initiated a working group within the International Platform on Sustainable Finance to undertake a technical comparison of taxonomies to identify commonalities and differences in their respective approaches and outcomes. In a series of reports, the working group found that, since China published its first green taxonomy in 2015, the country's ESG standards are increasingly aligned with international standards, as indicated in the revised edition of green taxonomy in 2021. One key difference is environmental objectives. China's green taxonomy has three environmental objectives: environmental improvement, climate change response and more efficient resource utilisation. The EU taxonomy has six environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.[16]

Despite differences between the West and China, there is significant convergence in ESG goals and indicators

ESG finance

Over the past decade, China has been a global leader in infrastructure investment. While an average country invests around 5% of its gross domestic product (GDP) in infrastructure, such investments account for about 20% of China's GDP.[17] In particular, China is the leading creditor of low-income developing countries, many of which are former highly indebted poor countries. This Chinese capital is particularly important for the financing of large-scale energy and mining projects. China accounts for 20% of Africa's infrastructure finance and 31% of the continent's infrastructure construction.[18]

Over the past decade, China has been a global leader in infrastructure investment. While an average country invests around 5% of its GDP in infrastructure, such investments account for about 20% of China's GDP

16 International Platform on Sustainable Finance, *Common Ground Taxonomy: Climate Change Mitigation*, November 4, 2021.
17 AIIB, *Asian Infrastructure Finance 2020: Investing Better, Investing More*, Report (Beijing: AIIB, 2020).
18 Deloitte, *Capital Projects in a Digital Age: Africa Construction Report Trends 2019* (Johannesburg: Deloitte Africa, 2019).

ESG is crucial to the sustainability of infrastructure projects. China's development finance increasingly emphasises environmental sustainability. Since 2012 its financial regulators have issued a number of regulations in pursuit of green investment and financing. China is now the second-largest green-bond issuer in the world, accounting for a quarter of newly issued global green bonds in 2018.[19] Its main development finance platforms and institutions, such as the two new multilateral development banks, support environmental sustainability in their mandates. This growing concern with environmental sustainability can also be seen in the high profile of renewable energy in China's development finance, with 57% of total overseas investments in 2020 being in renewable energy. The country has been promoting green lending for years and is now the largest green credit market in the world. In the first half of 2022 China's green loans grew to RMB[20] 20 trillion (about $3 trillion), jumping 40% from the previous year.[21] Yet green loans accounted for only about 10% of the total loan market, indicating considerable untapped potential.

In August 2016 a comprehensive plan – the 'Guidelines for China's Green Financial System' – was jointly issued by seven ministries and commissions: the People's Bank of China (PBOC), Ministry of Finance, NDRC, Ministry of Environmental Protection, China Banking Regulatory Commission, CSRC and China Insurance Regulatory Commission. The guidelines set out rules for the development of green loans, green bonds and other green and sustainable financial instruments.

In July 2021 the PBOC issued a guideline aimed at financial institutions that sets out the form and content elements of environmental information disclosure, among others. On 1 June 2022 the China Banking and Insurance Regulatory Commission issued the 'Green Finance Guidelines for the Banking and Insurance Industry'. These guidelines specify that banking and insurance institutions shall actively support green and low-carbon construction in BRI projects. Project sponsors and their main contractors and suppliers are required to comply with relevant laws and regulations on ecology, environment, land, health and safety. They must also ensure project management is substantially consistent with international good practices.[22]

Drivers of China's ESG efforts

China's ESG efforts have converged in a growing market that combines support for long-term climate goals and near-term investment strategies. The increasing adoption of ESG management systems in overseas projects is driven by three factors.

The first is a top-down driver. The national goal of the green transition of the Chinese economy has compelled regulators to step up enforcement actions against environmental

19 Climate Bonds Initiative, *China Green Bond Market Report 2021* (London: Climate Bonds Initiative, 2021).
20 Currency code for the Chinese renminbi.
21 People's Republic of China, State Council, "China Sees Rapid Growth of Green Loans", July 29, 2022.
22 Christoph Nedopil Wang and Xue Bing, "Interpretation: New CBIRC 'Green Finance Guidelines for the Banking and Insurance Industry'", Green Finance & Development Center, July 14, 2022.

violations. In particular, the ESG practices of Chinese SOEs are expected to help address such issues as China's 2060 carbon-neutral goal and the government's rural revitalisation initiative, among others, to contribute to the country's high-quality economic and social development. A comprehensive ESG standard reflects China's policy priorities and development goals.[23] In other words, environmental goals are diligently pursued in China, but with a pragmatic nod to 'development priorities'.[24]

The second is a bottom-up driver. ESG investing has the potential to be a factor in outward-looking Chinese policies and practices. Many institutional investors are signatories of the UN Principles for Responsible Investment, which promote the incorporation of ESG in investment decision-making. The number of China-based signatories increased from four in 2016 to 74 in September 2021, most of which are public funds and insurance companies.[25] The investment-driven nature of ESG makes it possible for investors to play a more important role in this growing enterprise. Ongoing regulatory changes have increased demand for companies to proactively factor ESG considerations into their investment moves. Chinese authorities at every level are also offering further enticements with ESG-friendly financial incentives.

The third is a global driver. The Xi administration's Global Development Initiative (GDI) should integrate ESG into the Greening BRI programme. There is growing recognition among investment and business professionals that ESG issues can have a material impact on company value and that the management of such risks can enhance economic value for companies and their shareholders. China has the largest number of Fortune Global 500 companies. With rapidly growing outward investments, those companies have encountered criticism of China's domestic emissions trajectory and overseas coal projects.

With the announcement of double carbon targets, China's ESG landscape is growing rapidly and many ESG-related regulations and guidelines have been established. However, ESG in China is still in its early stage of development. Most of the new regulations have not been properly implemented yet, particularly in overseas investment projects. Compared to ESG regulations in the US and EU, the level of ESG information disclosure in China is relatively low and ESG disclosure requirements are rather fragmented, resulting in weak comparability and quantification. Moreover, the differences in standards and methodology between Chinese and foreign ESG rating systems could also complicate the ESG compliance of international projects.

23 Jiangyu Wang, "CSR as CPR: The Political Logic of Corporate Social Responsibility in China", *USALI East-West Studies* 2, no. 5 (2022).
24 Eric Johnson, "China's ESG Balancing Act", *Global Finance*, December 29, 2021.
25 UN Principles for Responsible Investment, "ESG Disclosure in China: Market Readiness and PRI Investor Survey" (Briefing, UNPRI, London, 2021).

CHAPTER 3

How does standard setting in Chinese-led infrastructure provision work?

While very distant in geographic and cultural terms, sub-Saharan Africa and Southeast Asia show similar trends regarding infrastructure. Both regions are undergoing rapid urbanisation but lack the funding to construct most of the necessary infrastructure. Over the past two decades the Export-Import Bank of China (China Exim Bank) and the China Development Bank (CDB) have become key providers of funding, plugging a considerable portion of the infrastructure gap in both regions. This role intensified after the launch of the BRI in 2013. In both regions, generous funding packages by China resuscitated infrastructure projects that had lagged for decades owing to Western donors' conservative approach to funding projects with low expected returns. Numerous ports, coal and hydro-power plants, thousands of kilometres of fibre optic cables, and massive cross-regional railways such as the Standard Gauge Railway (SGR) in Eastern Africa and the High Speed Railway (HSR) in Southeast Asia have triggered an impressive hardware makeover in both regions and revitalised national and cross-regional transportation routes.

In both regions, generous funding packages by China resuscitated infrastructure projects that had lagged for decades owing to Western donors' conservative approach to funding projects with low expected returns

Notably, a considerable number of projects funded by China in Southeast Asia and Eastern Africa are part of pre-existing cross-regional or national transport master plans. Many of the studies examining these infrastructure projects highlight the latent complementarities between national development plans,[26] the BRI and even the UN's Sustainable Development Goals.[27] Some note the drafting of specific joint coordination plans between China and host countries' planning authorities (eg, Cambodia).[28] All of this suggests some

26 Namely Kenya's Vision 2030, Myanmar's 2018–30 National Strategy, Laos's Land Linked Economy, and Indonesia's Nine National Priority Agenda under Widodo's Administration.

27 Jing Gu and Shen Qiu, "The Belt and Road Initiative and Africa's Sustainable Development: A Case Study of Kenya", *IDS Bulletin* 50, no. 4 (2019): 89–108; Siwage Dharma Negara and Leo Suryadinata, "The Flying Geese and China's BRI in Indonesia", *The Singapore Economic Review 66*, no. 1 (2019): 1–24; Simon Rowedder, "Railroading Land-Linked Laos: China's Regional Profits, Laos' Domestic Costs?", *Eurasian Geography and Economics* 61, no. 2 (2019): 152–161; Taidong Zhou, "Aligning the Belt and Road Initiative with Myanmar's Sustainable Development Plan: Opportunities and Challenges", *IDS Bulletin* 50, no. 4 (2019): 69–88.

28 Fang Hu et al., "Chinese Enterprises' Investment in Infrastructure Construction in Cambodia", *Asian Perspective* 43, no. 1 (2019): 177–207.

degree of complementarity of interests and planning articulation, at least at the macro level, between China and host states. Moreover, Chinese engagement in infrastructure has made construction markets more competitive in both regions, pushed construction price-tags down and given recipient countries greater negotiation leverage with traditional donors.

Nonetheless, a survey of the sprawling literature dissecting Chinese-led infrastructure projects in both regions reveals a tendency to focus on the negative. There is an emphasis on the lower standards of Chinese infrastructure outputs compared to those of traditional donors, in particular the World Bank, Western donors in Africa and Japan in Southeast Asia. Most of the challenges pointed out relate to environmental and social impacts, governance and debt sustainability. This raises the question as to why China's engagement in infrastructure in Africa and Southeast Asia tends to produce outputs that are perceived as substandard by many, despite its far greater resources and follow-through.

Such a survey shows that the interaction between four main stakeholders and two variables seems to play an important role in setting ESG standards in Chinese construction projects overseas. In terms of stakeholders, the most relevant ones on the Chinese side are the financiers (policy banks) and the contractors (SOEs and private sector), with political leaders and civil society on the recipient side. Institutional capacity and rule of law in host countries are the major variables shaping infrastructure outputs.

Chinese financiers and contractors

While Chinese policy banks such as China Exim Bank and CDB play a key role in funding infrastructure projects overseas, unlike Western financial institutions such as the World Bank they do not appear to play a strong role in setting standards on the ground.[29] Chinese contractors seem to have greater agency in this regard, perhaps given their much larger global footprint and hence their knowledge of foreign markets. This, coupled with their greater risk-taking attitude owing to their financing model, means that they sometimes push Chinese policy banks to fund projects with weak commercial viability.[30] SOEs (central and provincial) appear to be dominant in transport and energy infrastructure projects, whereas the private sector seems to be steering ICT infrastructure. This dyad encapsulates a classic principle–agent dilemma[31] that partially explains how the above dynamics distort the central government's intentionality and, arguably, even more so in the case of the private sector. This despite the fact that new regulations (2018) now demand that all projects over $5 million be run past the local economic councillor.

China's overseas infrastructure venture, which leapfrogged in the wake of the 'going-out policy' in 2001, was designed to solve domestic overcapacity and facilitate the emergence

29 Hong Zhang, "The Aid-Contracting Nexus: The Role of the International Contracting Industry in China's Overseas Development Engagements", *China Perspectives* 4 (2020): 17–27.

30 Zhang, "The Aid-Contracting Nexus".

31 William J Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca: Cornell University Press, 2016).

of world-class Chinese companies. This would be done by exporting industrial goods and technology through international contracting, rather than setting standards overseas or funding host countries' development needs (aid-contracting nexus).[32] These concerns emerged a posteriori in the narrative, becoming increasingly evident with the launch of the BRI in 2013, and in many ways were a result of its growing dominance in global contracting markets. By 2018 Chinese contracting companies accounted for nearly one-quarter of the world's contracting revenue,[33] with an even higher share in developing markets – 60% in Africa and 40% in Asia.[34]

There is also an argument that says that China's alternative development funding model (alternative to that of the Organisation for Economic Co-operation and Development [OECD] Development Assistance Committee [DAC]) resulted not from a top-down design process but rather was shaped by the strong agency of Chinese contractors downstream.[35] These contractors started pulling together different forms of financing from Beijing (eg, combining concessional loans and export buyers' credits) to secure large-scale infrastructure projects overseas. While infrastructure funding agreements are technically signed by the Chinese government, the host country (borrowing entity) and the Chinese policy bank (lending entity), it is the Chinese contractor who normally drives the borrowing process. This is done by lobbying the two governments for a framework agreement and submitting loan requests to the policy banks.[36] While Chinese contractors' easy and quick access to funding gives them a competitive edge in the international market and explains China's rapid overtake of the global contracting industry, it is also the source of many problems. A financing model shaped by contractors downstream is largely driven by companies' interests (gaining new contracts overseas and increasing revenue) rather than considerations around the financial viability of projects. This results in Chinese policy banks being more likely to fund risky projects compared to traditional donors, which has negative impacts not only on the banks' balance sheets but also on Beijing's reputation (ie, 'debt-trap diplomacy' accusations[37]). In addition, owing to their central role in enabling host countries to access credit, Chinese contractors are often exempted from rigorous tendering processes, leading to accusations of corruption and public protests in host countries.

China's appetite to lend seems to be cooling off in the face of greater levels of indebtedness across the Global South, in particular Africa, and shrinking profit margins owing to stiff competition between Chinese contractors. In response, these contractors' business models appear to be moving from EPC contracting to 'integrated investment, construction and operation'. This means that Chinese contractors are increasingly operating and investing in the infrastructure they design and build overseas, and hence acting more as investors rather than simple contractors (eg, the Addis Ababa-Djibouti railway).[38]

32 Zhang, "The Aid-Contracting Nexus". p. 7.
33 Zhang, "The Aid-Contracting Nexus".
34 Zhang, "The Aid-Contracting Nexus".
35 Zhang, "The Aid-Contracting Nexus".
36 Zhang, "The Aid-Contracting Nexus", p. 10.
37 For a selection of articles on "debt trap" allegations, see China Global South Project, "Trap", https://chinaglobalsouth.com/?s=trap.
38 Zhang, "The Aid-Contracting Nexus", p. 12.

Over the years Chinese development financing institutions have made several attempts to rein in the self-interested behaviour of Chinese SOEs and improve loan performance. Such attempts range from incentivising partnerships with other international lending institutions to the issuance of new regulations on social and environmental impact assessments and anti-bribery[39] (also known as the Guidelines on Green Credit, 2012),[40] bringing them closer to traditional lending institutions' parameters (rather than challenging them, as often portrayed in the literature).

So, why do Chinese banks continue to support unviable projects, disregarding the standards and regulations they have set up internally? According to one argument, when commercial and political interests do not align, Chinese financial institutions tend to privilege the latter, following a logic of appropriateness rather than a purely rational logic in their decision-making. Such a logic, for instance, constrains policy banks' capacity to perform neutral assessments of project proposals that have the political support of Beijing, which is the case with most SOEs' submitted projects. Moreover, similar political considerations, in particular the non-interference principle, inhibit banks from engaging in consultations with civil society and communities affected by such projects in the same manner the World Bank does, for instance. As such, not much progress has been observed on the ground, despite the fact that Beijing has acknowledged the economic, social and environmental limitations of overseas infrastructure projects and has taken significant steps to tighten domestic regulations to overcome these.

Political leadership and civil society in the host country

A significant number of studies highlight the role of domestic agents – political and social stakeholders – in shaping implementation standards. Various analyses converge in uncovering a high degree of agency exerted specifically by ruling elites.[41] In many cases, this is driven by short-term domestic political agendas (eg, electoral cycles), financial greed or the urge to consolidate territorial and administrative control over remote areas of a country,[42] often to the detriment of local communities.

While social stakeholders do not seem to have much say in the drafting of overarching agreements or project planning phases, their imprint on infrastructure projects is still felt

39 Xue Gong, "Logics of Appropriateness: Explaining Chinese Financial Institutions' Weak Supervision of Overseas Financing", *World Development* 142 (June 2021).

40 International Finance Corporation, "Green Credit Guidelines (Translation)", Sustainable Banking Network, 2012.

41 Shaofeng Chen, "Regional Responses to China's Maritime Silk Road Initiative in Southeast Asia", *Journal of Contemporary China* 27, no. 111 (2018): 344–361; Sung Chull Kim, "China and Its Neighbors: Asymmetrical Economies and Vulnerability to Coercion", *Issues and Studies* 55, no. 4 (2020): 1–25; Hong Liu and Guanie Lim, "The Political Economy of a Rising China in Southeast Asia: Malaysia's Response to the Belt and Road Initiative", *Journal of Contemporary China* 28, no. 116 (2019): 216–231; Yoon Ah Oh, "Power Asymmetry and Threat Points: Negotiating China's Infrastructure Development in Southeast Asia", *Review of International Political Economy* 25, no. 4 (2018): 530–552; David Styan, "China's Maritime Silk Road and Small States: Lessons from the Case of Djibouti", *Journal of Contemporary China* 29 (2020): 191–206; Shang-Su Wu and Alan Chong, "Developmental Railpolitics: The Political Economy of China's High-speed Rail Projects in Thailand and Indonesia", *Contemporary Southeast Asia* 40, no. 3 (2018): 503–526; Chris Alden and Oscar Otele, "Fitting China In: Local Elite Collusion and Contestation Along Kenya's Standard Gauge Railway", *African Affairs* 121, no. 484 (2022): 443–466.

42 Rowedder, "Railroading Land-Linked Laos".

through processes of contestation at the implementation stage. These are mostly related to resettlement, compensation, labour and environmental issues, as well as corruption and collusion around projects.[43] Strong public protests have in some cases led to project redesign (eg, SGR inclusion of overpasses in Tsavo National Park in Kenya), long delays and even cancellation of BRI projects, such as in Cambodia (Kamchay Dam),[44] Myanmar (Mytsone Dam, the railway from Kunming)[45] and Kenya (further phases of the SGR).[46]

From the above, and in very general terms, it appears that interventions by host countries' ruling elites often push standards down while social contestation is more likely to bring them up. This means that, at least in theory, countries with strong civil society activism are more likely to experience higher standards in the implementation of Chinese infrastructure projects,[47] but also delays and cancelations.[48]

Arguably, however, interactions between Chinese contractors and local authorities have the biggest effect on how projects are rolled out. Unfortunately, such interactions are often tainted by a lack of transparency and frequent irregularities (bidding and procurement) in both regions, as have been widely documented. A lack of competitive bidding and the bypassing of legal procedures by host governments seem common practices to fast-track BRI projects in both regions.[49] In addition, the Chinese corporate sector's ignorance of or blatant disregard for local customs and laws, particularly labour and environmental regulations, is another issue highlighted by analysts.[50] It is alleged that corruption also substantially inflated the price tags of projects in both Eastern Africa[51] and Southeast Asia,[52] benefitting ruling elites at the expense of taxpayers. Incidents of this nature were widely reported in the media, creating friction with civil society and local contractors and raising concerns over the sustainability of projects and the integrity of Chinese companies. Ultimately, the overall standards of Chinese infrastructure funding are questioned.

43 María Noel Dussort and Agustina Marchetti, "China's Cooperation in Africa in the Area of Physical Connectivity Infrastructure: The Case of the Mombasa-Nairobi Railway Line", *JANUS NET e-journal of International Relations* 2, no. 10 (2019): 92–109; Negara and Suryadinata, "The Flying Geese"; Nancy Muthoni Githaiga and Wang Bing, "Belt and Road Initiative in Africa: The Impact of Standard Gauge Railway in Kenya", *China Report* 55, no. 3 (2019): 219–240; Nancy Muthoni Githaiga et al., "The Belt and Road Initiative: Opportunities and Risks for Africa's Connectivity", *China Quarterly of International Strategic Studies* 5, no. 1 (2019): 117–141; Gu and Qiu, "The Belt and Road Initiative".

44 Hu et al, "Chinese Enterprises' Investment".

45 J Mohan Malik, "Myanmar's Role in China's Maritime Silk Road Initiative", *Journal of Contemporary China* 27, no. 111 (2017): 362–378.

46 Githaiga and Wang, "Belt and Road Initiative in Africa"; Dussort and Marchetti, "China's Cooperation in Africa".

47 For concrete examples, see Courtney J Fung et al., "Conditioning China's Influence: Intentionality, Intermediaries and Institutions", *Journal of Contemporary China* 32, no. 139 (2023).

48 Guanie Lim, Chen Li and Emirza Adi Syailendra, "Why Is It so Hard to Push Chinese Railway Projects in Southeast Asia? The Role of Domestic Politics in Malaysia and Indonesia", *World Development* 138 (2021): 105272.

49 Githaiga and Wang, "Belt and Road Initiative in Africa"; Githaiga et al., "The Belt and Road Initiative"; Negara and Suryadinata, "The Flying Geese".

50 Githaiga and Wang, "Belt and Road Initiative in Africa"; Gu and Qiu, "The Belt and Road Initiative"; Hu et al., "Chinese Enterprises' Investment"; Zhangxi Cheng, "Building the Belt and Road Initiative? – Practices En Route", *The Pacific Review* 33, no. 5 (2019): 1–25.

51 Githaiga et al., "The Belt and Road Initiative".

52 Elsa Lefaye De Micheaux, "Malaysia Baru: Reconfiguring the New Malaysian Capitalism's Dependency on China – a Chronicle of the First Post-GE 2018 Economic Reforms", *Contemporary Chinese Political Economy and Strategic Relations* 5, no. 1 (2019): 77–135.

One variable: Rule of law and institutional capacity in the host country

Efforts by the central government (ie, the NDRC, SASAC and MOFCOM) to regulate and raise social and environmental standards in overseas projects have pushed the corporate sector to include CSR directives in their corporate strategies, not only for the reputational value but also as a way to mitigate risks. SOEs' own regulations and standards regarding CSR practices and environmental protection have improved substantially over the years and are now mostly on par with those of their Western counterparts. Nonetheless, compliance remains patchy owing to weak enforcement power stemming from unclear monitoring mechanisms and punishments (which are almost on a voluntary basis). In the absence of these, according to a study,[53] the default behaviour of Chinese SOEs with regard to ESG seems to be to adapt to host country regulations when strong, or take advantage of weaknesses if the opportunity arises, rather than following the higher standards of their home country regulations. This means that states with stronger institutional capacity and rule of law are more likely to experience higher standards of Chinese-led infrastructure.

The default behaviour of Chinese SOEs with regard to ESG seems to be to adapt to host country regulations when strong, or take advantage of weaknesses if the opportunity arises

While there has been a clear learning curve among Chinese players, incentives for such behaviour will persist as long as monitoring and enforcement remain weak on the Chinese side, enabling companies to 'juggle profit maximisation and Chinese reputation'.[54] In weak institutional contexts, this adaptation behaviour leads to collusion with local elites, corruption and clientelism. However, in some cases this has – to an extent – been mitigated by strong civil society resistance, forcing Chinese contractors to address environmental concerns and community grievances. In this sense, the ESG standards of Chinese infrastructure projects overseas currently seem to be more determined by the institutional capacity, rule of law and civil society of host countries than Beijing's regulating efforts. This adaptive governance model has generated highly context-specific outcomes, in many cases generating negative externalities for China. Conversely, this adaptive approach gives host countries the leverage to impose their preferred standards, which may be a good or a bad thing depending on political leadership and institutional capacity.

Drawing on the abundant literature on this topic, it thus appears as though standard setting in China's infrastructure projects is largely a by-product of a complex bargaining

53 Maria Adele Carrai, "Adaptive Governance along Chinese-financed BRI Railroad Megaprojects in East Africa", *World Development* 141 (May 2021).

54 Carrai, "Adaptive Governance".

process. This bargaining takes place at the implementation level between Chinese contractors, host countries' political elites and civil society stakeholders, and is mediated by the rule of law and institutional capacity of the host country.

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

CHAPTER 4

Case studies

Tender and ESG impact assessment processes

CAMBODIA: Asia-Africa-Europe-1 Undersea Data Cable System

Contractor: HyalRoute

HyalRoute claims to be the largest Chinese firm investing in telecom infrastructure services, with over 20 years of experience in China.[55] To improve telecom connectivity and provide cost-efficient services to users in Cambodia, in 2016 the Fibre Optic Communication Network (CFOCN) – a branch of HyalRoute group – signed an agreement with investment capital of $69.7 million at a period of 25 years with the Ministry of Posts and Telecommunications. The agreement was for the construction of a 380km submarine fibre-optic cable network as part of the Asia-Africa-Europe-1 (AAE-1) Undersea Data Cable System via the Gulf of Thailand off the coast of Sihanoukville.

The company proposed three phases for public participation by holding a public discussion with representatives from national authorities and non-governmental organisations (NGOs). These would be followed by meetings with local authorities and representatives of residents' groups. The last phase was proposed for direct consultation with locals. However, according to the ESIA team, it was rare for NGOs to be involved in the surveys and public discussion sessions with the company.

The survey team conducted discussion meetings with four groups of interviewees. The first level of meetings was with 17 representatives of municipal departments and stakeholder institutions on 27 December 2016. Notably, almost all of the interviewees in this category expressed support for the project. Only a few basic questions regarding technical issues were raised. The second group consisted of local village authorities. The third meeting (on 1 January 2017) involved the fishing community, and not many details were recorded. The fourth meeting was directly with local village residents (2–4 January 2017).[56] The discussion with local residents concentrated on how their material needs would be met via the provision of low-cost data access.

It was clear that transparency remained problematic despite the publication of an ESIA report. There was no further information on the investment, such as how financing would

55 HyalRoute, "Company Profile", http://www.hyalroute.com/aboutus/company-profile/.

56 HyalRoute, *Disclosure of Environmental and Social Information*, Chapter 6: Public Participation, pp. 257–262, http://www.hyalroute.com/documents/13/EIA_for_Submarine_Cable_Project.rar [link not active]

be provided – whether in the form of loans, or via public fundraising, or through third-party investment. It was also unclear how economic returns would be divided or how the company decided on procurement. The ESIA did not disclose such information.

As CFOCN applied financing from the China-led multilateral development bank (the AIIB), for similar cable-laying projects in Cambodia, we used the AIIB-sponsored project as a benchmark to assess the Chinese company's performance in the AAE-1 project. The company adopted the standards set out in the AIIB's Environmental and Social Policy and Environmental and Social Standards. As the AIIB disclosed, the AIIB-funded Fiber Optic Communication Network Project by CFOCN was assigned Category B status,[57] given the limited scope of potential environmental and social risks and impacts. To expand the public audience, the EIA for the Land Cable Project was provided in Khmer and a non-technical summary of the EIA in English. Additionally, CFOCN developed an environmental and social management plan that details mitigation measures for minimising negative impacts. Additionally, the AIIB report mentioned that indigenous groups were taken into consideration in the project, although the construction and maintenance of the project was not expected to result in the transformation of, encroachment on or degradation of indigenous lands or associated livelihoods.[58]

More importantly, CFOCN has to apply the Project-affected People's Mechanism (PPM) in such an AIIB-funded project. The PPM was established by the AIIB to provide an independent and impartial review of submissions from people who believe they have been or are likely to be adversely affected by its failure to implement its Environmental and Social Policy in situations when their concerns cannot be addressed satisfactorily through project-level grievance redress mechanisms or the AIIB management's processes.[59]

However, no project-level grievance redress mechanism was developed, limiting the number of channels for stakeholders to raise grievances with CFOCN. The survey team deployed by CFOCN also made it difficult to provide a neutral assessment of the environmental and social impact of the project. In addition, the survey report did not provide a process for investigating and responding to grievances by local communities. Furthermore, there was no mention of establishing a database to record and track communications[60] in the AAE-1 project.

On the one hand, it is difficult for business sectors to apply an advanced practice if the local government's standards are low or governance capacity is weak. Cambodia is seen as a highly corrupt country with low governance capacity and weak regulatory quality and rule of law. Foreign investors are thus highly susceptible to its weak and corrupt institutions. On the other hand, the AIIB-sponsored project shows that the same company was able to apply a much higher standard in other infrastructure projects.

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57 The AIIB rates projects according to ESG impact from Category A (significant, irreversible adverse social and environmental impact) to Category C (minimal or no adverse social or environmental impact.) See AIIB, "Environmental and Social Framework (Amended February 2019)", March 13, 2019.

58 AIIB, "Cambodia: Fiber Optic Communication Network Project", https://www.aiib.org/en/projects/details/2019/approved/Cambodia-Fiber-Optic-Communication-Network-Project.html.

59 AIIB, "Cambodia Fiber Optic".

60 AIIB, "Cambodia Fiber Optic".

KENYA: Standard Gauge Railway

Contractor: China Road and Bridge Corporation

The SGR was promulgated in Nairobi in the presence of President Mwai Kibaki and his Ugandan counterpart, Yoweri Museveni. Almost a year later, the Ministry of Transport and China Road and Bridge Corporation (CRBC) agreed that the latter would perform a free feasibility study on the SGR on condition that construction contracts not be granted to another company.[61] This was in disregard of Article 227 of Kenya's constitution, which requires that 'when a State Organ or any other public entity contracts for goods and service, it shall do so following a system that is fair, equitable, transparent, competitive and cost-effective'.[62] This is supported by the principles of public procurement detailed in the Public Procurement and Asset Disposal Act: 'value for money, integrity, public accountability, openness to competition and trade partners, support for economic and social objectives and efficiency'.[63]

Pursuant to its internal 2007 guidelines, China Exim Bank conducted an ESIA. It was reported that the bank considered[64]

> environmental and social risks and impact; labour and working conditions; resource efficiency and pollution prevention; community health, safety, security; land acquisition and involuntary resettlement action plans; biodiversity conservation; assessments of impacted protected areas and mitigation measures; and protection of indigenous peoples and cultural heritage.

Before construction started, CRBC also undertook an EIA. It was reported that the Chinese embassy was keen to ensure that CRBC comply with 'local environmental and social regulations as well as international guidelines'.[65] This was achieved through 'regular visits, meetings, and trainings and created penalties that could damage managers' political careers'.[66] In its first CSR report in 2016, CRBC stated that the[67]

> project strictly observed local environmental protection laws and regulation but also organised and participated in environmental protection charity and relief activities such as rescuing the wild elephants caught in mud and organising the garbage collection activity in the national park and so on, which got warm response and worldwide acclaim of all sectors of society.

61 Government of Kenya, Public Investments Committee, *Special Report on the Procurement and Financing of the Construction of Standard Gauge Railway from Mombasa to Nairobi* (Nairobi: Government of Kenya, April 29, 2014).
62 Government of Kenya, "The Constitution of Kenya, 2010", Kenya Law.
63 Government of Kenya, Ethics and Anti-Corruption Commission, "The Public Procurement and Asset Disposal Act (2015)".
64 Weidong Liu, *The Belt and Road Initiative: A Pathway towards Inclusive Globalization* (New York: Routledge, 2019).
65 Liu, *The Belt and Road Initiative*.
66 Liu, *The Belt and Road Initiative*, 160.
67 China Road and Bridge Corporation, "CRBC Releases the First Overseas Project CSR Report of Chinese Enterprises in Kenya", 2016.

Following a petition filed by Kenya's Coalition for Wildlife Conservation and Management claiming that the SGR would traverse Nairobi National Park, the National Environment Tribunal issued an injunction stopping the work.[68] Although the Ministry of Transport conducted an ESIA, civil society activists complained that the report was not objective, urging the National Environmental Management Authority not to allow the construction of the railway through the park.[69] In response to environmentalists, CRBC explored more than 10 alternative routes. In the end it opted to build raised viaducts to allow animals to pass and watering points along the route.[70] This suggests that CRBC responded to public opinion by opting for a recommendation from the tribunal that was more cost effective, despite the fact that media reports said the railway adversely affected animals' migration patterns.[71] In line with China Exim Bank guidelines, CRBC and Kenya Railway Corporation (KRC, the state-owned rail company and a key partner in the SGR) were responsible for reporting on social and environmental impact. Upon completion of Phase One, KRC submitted environmental acceptance documents and subsequently China Exim Bank conducted post-evaluations of environmental and social impacts with a view to monitoring the SGR's post-loan management.[72]

CAMBODIA: Stung Tatay Dam Project

Contractor: China Gezhouba Group

The 246MW Stung Tatay River Hydropower Dam is located in Cambodia's western Koh Kong province.[73] It was constructed between 2010 and 2015 under a 42-year build-operate-transfer agreement between the Cambodian government and Cambodian Tatay Hydropower Ltd (CTHL).[74] CTHL is a local Cambodian subsidiary of a joint venture between three Chinese firms that was established specifically for the implementation of this project.[75] Financed through a $540 million loan from the China Exim Bank,[76] the dam was inaugurated in December 2015.

The project's EIA is not publicly available. The data used here draws on a draft published in 2010 by Open Development Cambodia. CTHL hired a local consulting firm, KCC, to conduct

68 Kenya Forum, "Tribunal Halts Construction of SGR through National Park", September 20, 2016.
69 Sebastian Mwanza and Catherine Chumo, "Will the Iconic Park Survive? Standard Gauge Railway through Nairobi National Park", *UN Perspectives* 32 (2019).
70 Mwanza and Chumo, "Will the Iconic Park Survive?"
71 Mwanza and Chumo, "Will the Iconic Park Survive?".
72 Liu, *The Belt and Road Initiative*.
73 China Gezhouba Group, "CGGC-constructed Tatay River Hydropower Station Begins Impoundment", *China Daily*, November 19, 2013.
74 Sok Chan, "Cambodia's Energy Rising with New Hydro Plant: Officials", *Khmer Times*, December 23, 2015.
75 Sinomach, "Construction Commenced for the Largest Chinese Investment Project in Cambodia", July 13, 2009; Inclusive Development International, *Safeguarding People and the Environment in Chinese Investments: A Reference Guide for Advocates*, 2nd edition (Ashville: Inclusive Development International, 2019).
76 Axel Dreher et al., "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset" (Working Paper 46, AidData, Williamsburg, 2017).

the EIA, which was finalised in 2010. In June 2009 a public forum was held in Koh Kong to discuss the impacts of the Tatay project prior to its approval and to release preliminary findings from the KCC-prepared EIA. While the Cambodian government defended large dams, claiming that their economic benefits outweighed their environmental impacts, residents expressed concerns over the preliminary results. A feasibility study conducted in 2007 predicted that more than 2 000ha of forest would be inundated by the dam's reservoir, leading to lowered water and fish stock quality and resulting in serious impacts for locals, who rely on these resources for their livelihoods and nutrition. In addition, *Phnom Penh Post* journalists reported official mentions of preliminary considerations on 'where and how to remove people from the impacted area'.[77] However, other documents, including the EIA itself and – notably – a 2009 Japan International Cooperation Agency (JICA) study on proposed hydropower projects in Cambodia, reported that no local households needed to be relocated.[78] Still, the lack of transparency and absence of public disclosure of official documents on environmental and social outcomes of the process make it unclear whether any relocations occurred (local population displacement has been confirmed through independent research).

The available EIA states that the reservoir created by the project would flood 2 949ha permanently and 182ha temporarily. Other documents offer different estimates: the JICA report stated that the project would flood a projected 4 600ha, while a UN Framework Convention on Climate Change Clean Development Mechanism Project Description report claimed flooding of a 1 600ha area.[79] The flooded area consists mostly of the Cardamom forest, which is home to a wide variety of wildlife, including endangered elephants, sun bears, wild boars, dragonfish, and critically threatened Siamese crocodiles. Environmental NGOs raised objections in light of the project's proximity to the Central Cardamoms Protected Forest area. Wildlife Alliance pointed to the dam's disruption of the river's hydrologic flow patterns.

> There is no evidence of any implementation, progress or success along these lines, and it remains unclear whether such follow-up initiatives were ever completed or even initiated

The EIA noted that such flooding would also affect the livelihoods of locals who depend on the forest and its resources. The JICA study stated that 21 villages were located within a 40km radius of the dam's planned power station, consisting of 1 654 families and

77 Sebastian Strangio and Sam Rith, "Koh Kong Forum Highlights Benefits, Pitfalls of Hydro Dams", *Phnom Penh Post*, June 16, 2009.
78 Japan International Cooperation Agency, *The Master Plan Study of Hydropower Development in Cambodia: Final Report* (Tokyo: JICA, January 2009).
79 UNFCCC, "Project 8761: Stung Tatay Hydroelectric Project", https://cdm.unfccc.int/Projects/DB/BVQI1355457198.66/view?cp=1.

6 229 total residents, according to a 2003 rural census survey. The EIA provided different estimates, claiming that the project would affect the livelihoods of 1 549 families. Given the salinity of the soil, little agricultural cultivation was pursued in the area, and according to JICA the land to be flooded consisted of 84% forest, 3% agricultural use and 13% other uses.

The EIA described an anticipated budget for a forest conservation programme, an agricultural support programme, a small business loan scheme, and healthcare services for both construction workers and the local population. However, there is no evidence of any implementation, progress or success along these lines, and it remains unclear whether such follow-up initiatives were ever completed or even initiated.

INDONESIA: Java-7 Coal-Fired Power Plant

Contractor: China Shenhua Energy

The Java-7 coal-fired power plant disclosed basic information in terms of loans, tender, operator and ESG activities. However, when held up to the standards of the AIIB, the project has transparency issues. First, its transparency was questioned during the tender process. In February 2016 the Indonesian House of Representatives created a special committee to investigate the process after finding that the winning consortium had been eliminated in the early stages of the process for not submitting estimates on EPC costs. Indonesia's anti-monopoly agency, the Business Competition Supervisory Commission, also investigated the tender. During the process, the Ministry of Energy and Mineral Resources claimed the central government never issued permits for reclamation projects in the area while the developers had already started activities.[80] The project reached financial close soon after the PPA had been signed – much faster than the Japanese-backed Tanjung Jati B project, despite the latter having a proven two-decade track record of developing large-scale projects in Indonesia.[81]

It is difficult to find financing information such as loan interest rates and default outcomes. Neither the consortium nor the Chinese company or the funder (CDB) provided information in this regard. The only public information released about the project was the greenfield investment, a 100% loan from the Chinese bank. Unlike the AIIB, which has a policy on public information, the project has not disclosed any information on a public feedback and complaints process.

80 Retno Ayuningtyas, "Uncertainty Surrounds Java-7 Power Project", *Jakarta Globe*, April 27, 2016.

81 James Guild, "The State, Infrastructure and Economic Growth in Jokowi's First Term" (PhD Diss., Nanyang Technological University, 2019), 201.

Land acquisition, community relocation and livelihood disruption

KENYA: Standard Gauge Railway
Contractor: CRBC

The relocation and compensation of local communities was the most controversial aspect of the SGR because of the historically emotive land question in Kenya. The country still has fragmented land-ownership regulations compounded by ethnic conflicts, hostility between the national and county governments, and corruption. Although the law safeguards the interests of landowners, the Land Act mandates the state to acquire any title in the public interest, subject to compensation.[82] In addition, the National Land Commission Act and the Prevention, Protection and Assistance to Internally Displaced Persons and Affected Communities Act protect the social rights of communities affected by foreign investments.[83] Land compensation was a nightmare for CRBC, despite the fact that this function rested with Kenya's National Land Commission. The government secured the land, but because of corruption, speculation, local clientelism and elites' manipulation, costs became exorbitant.[84] Mombasa County was the epicentre of the land disputes, led by then governor Hassan Joho, who told locals not to accept the compensation offer from the commission, arguing that such an offer ought to have considered 'ancestral interest'.[85]

CAMBODIA and VIETNAM: Lower Sesan 2 Dam
Contractor: Hydrolancang International Energy

The Lower Sesan 2 Dam lies on the Mekong River, which bisects Strung Treng, a rural north-eastern province along the Cambodia–Laos border. Generating 400MW, it is Cambodia's largest hydropower project to date.[86] It has had a huge impact on the country's energy landscape, increasing Cambodia's total electricity production by 20% upon its completion in 2018. The project was a joint venture between a subsidiary of China's SOE China Huaneng Group (CHNG), Hydrolancang International Energy (HEI), Cambodia's Royal Group (the country's largest investment and development conglomerate) and Electricity Vietnam

82 Government of Kenya, "Act 27 of 2016: Land Act of Kenya", Article 8, Kenya Law.

83 Government of Kenya, "National Land Commission Act (2012)"; Government of Kenya, "Prevention, Protection and Assistance to Internally Displaced Persons and Affected Communities, Act (2012)".

84 Yuan Wang and Uwe Wissenbach, "Clientelism at Work? A Case Study of Kenyan Standard Gauge Railway Project", *Economic History of Developing Regions* 34, no. 3 (2019): 280–299.

85 Uwe Wissenbach and Yuan Wang, "African Politics Meets Chinese Engineers: The Chinese-Built Standard Gauge Railway Project in Kenya and East Africa" (Working Paper 2017/13, China Africa Research Initiative, School of Advanced International Studies, Johns Hopkins University, Washington DC, 2017).

86 Associated Press, "Cambodia's Biggest Hydropower Dam Now Producing Electricity", *Bangkok Post*, December 17, 2018.

International (EVNI), a subsidiary of Vietnam's SOE Vietnam Electricity.[87] Originally, 51% of the project was supported by EVNI and 49% by the Royal Group. However, owing to concerns about EVNI's capital abilities, China's HEI stepped in, creating a project where HEI had a 51% share, Royal Group a 39% share and EVNI's share dropped to 10%.[88] Owing to its sizable original stake in the project, EVNI prepared the initial preparatory studies and EIAs.[89]

Lower Sesan 2 has been the most controversial of Cambodia's dams in light of its impact on the local population, specifically in terms of consultation, displacement and compensation. Protests against the project became regular as it progressed and it continues to receive significant attention from local and international media, as well as NGOs both in Cambodia and abroad. The results of the most thorough study to date on the social impacts of the project – a multi-year field study – were published by Human Rights Watch (HRW) in August 2021.[90] While existing literature provides a clear overview of the project and its development, the HRW report brings new data to light that is germane to the question of social impacts. It also gives a post-hoc review of the project that sets out recommendations for both the Chinese and Cambodian sides involved in the project.

> The project impacted tens of thousands of ... people upstream and downstream of the dam

Dam construction began in 2013, with the gates being closed in 2017, resulting in the flooding of the reservoir. While initial consultations and preparatory materials were done by the Vietnamese side, as the project developed the Chinese and Cambodian entities involved took on responsibility for the project and its impacts on the local population. As the HRW report sets out:[91]

> Completed in 2018, the Lower Sesan 2 dam ultimately resulted in the displacement of nearly 5 000 people, mostly Indigenous peoples and other ethnic minorities – Bunong, Brao, Kuoy, Lao, Jarai, Kreung, Kavet, Tampuan, and Kachok – who have lived in villages along the Sesan and Srepok Rivers for generations. In addition, the project impacted tens of thousands of other people upstream and downstream of the dam who depended on the rivers' fisheries for food and income. The project has

87 Oliver Hensengerth, "Regionalism, Identity and Hydropower Dams: The Chinese-built Lower Sesan 2 Dam in Cambodia", *The Journal of Current Chinese Affairs* 46, no. 3 (2017): 85–118.

88 Hensengerth, "Regionalism, Identity and Hydropower".

89 China Huaneng, "Company Overview", 2020; The Royal Group, "About the Royal Group of Companies", 2020; Dene-Hern Chen and Kuch Naren, "Electricity Vietnam No Longer Involved in Lower Sesan 2 Dam", *The Cambodia Daily*, November 28, 2012.

90 Human Rights Watch, *Underwater: Human Rights Impacts of a China Belt and Road Project in Cambodia*, *Report* (New York: HRW, August 2021).

91 HRW, *Underwater: Human Rights Impacts.*

also likely contributed to decreases in fishery yields across the entire Mekong River system, which is significant since tens of millions of people in Cambodia, Vietnam, Thailand, and Laos depend on fish caught in the Mekong system for food.

The HRW, through interviews with local communities and other stakeholders, showed that officials regularly ignored concerns expressed by the community and provided insufficient compensation with no effective conflict resolution mechanisms created to resolve conflicts. Moreover, the HRW notes similarities between the Lower Sesan Dam and the Souapiti Dam in Guinea – a potential area for a structured and focused comparative analysis in the future.

In terms of standard-setting in the development of the BRI initiative, perhaps what is most interesting in this case – consistent with China's White Paper on Aid released in January 2021 – is the fact that CHNG moved ahead with the release of its own report on next steps and the impacts of the dam. While the HRW has criticised the report as being incomplete and methodologically flawed, it does to some degree demonstrate an element of progress in standard-setting (even in a post-hoc manner) for BRI projects – even if clearly insufficient to meet global development best practice standards and OECD-DAC guidelines.

Debt transparency and financial governance

INDONESIA: Jakarta-Bandung High Speed Rail
Contractor: China Railway Engineering Corp.

Entering the presidential office on the back of an electoral promise to modernise Indonesia's creaking infrastructure in October 2014, Joko Widodo (nicknamed Jokowi) wasted no time in promoting large-scale developments such as the Jakarta-Bandung HSR. However, he was circumscribed by several structural features of the Indonesian economy. One of the most critical constraints emanates from the legislative system, which caps the fiscal deficit at under 3% of GDP.[92] This places an inherent limit on infrastructure spending as well as the more indirect route of mobilising SOEs to push key projects, forcing Jokowi to source financing partners from the private sector and/or abroad.[93] The private sector's preference for fast-earning, low-risk enterprises curbed its participation in costly projects with a longer-than-normal payback period, such as the Jakarta-Bandung HSR.

To bypass these limitations, one of Jokowi's most noteworthy steps was to attract Chinese business groups, especially those with access to state-backed financing. He also preferred

92 Alvin Camba, "Derailing Development: China's Railway Projects and Financing Coalitions in Indonesia, Malaysia and the Philippines" (GCI Working Paper 008, Boston University Global Development Policy Center, Boston, January 2020); Eve Warburton, "Jokowi and the New Developmentalism", *Bulletin of Indonesian Economic Studies* 52, no. 3 (2016): 297–320.

93 Kyunghoon Kim, "Indonesia's Restrained State Capitalism: Development and Policy Challenges", *Journal of Contemporary Asia* 51, no. 3 (2021): 419–46.

to award these projects on a business-to-business (B2B) basis, shifting the burden of financing from the public to the private sector. Indeed, one of the main reasons China Railway Engineering Corp (CREC) won the bid for the Jakarta-Bandung HSR was its willingness to waive Indonesian government guarantees on loan financing. This shifted the financing burden away from the Indonesian government to CREC, essentially transforming it into a B2B deal.[94]

Despite initiating a Japanese government-sponsored feasibility study in 2009 and promising to finance 75% of the project cost with a 0.1% long-term loan denominated in Japanese yen, a consortium of Japanese railway companies eventually lost the deal to CREC. The loss triggered widespread debate in the Japanese bureaucracy and private sector as it was not only a pillar of the Partnership for Quality Infrastructure but also one of the biggest railway developments in Southeast Asia. Moreover, the project received considerable attention from former Japanese prime minister Shinzo Abe. Indeed, then cabinet secretary Yoshihide Suga (who took over the prime ministership from Abe in September 2020), when asked to comment on the loss, called the decision 'extremely regrettable' and 'difficult to understand'.[95] These words were not typical for Japanese officials, who are known for their tact.

CREC was backed by powerful players in the Chinese government

Unsurprisingly, CREC was backed by powerful players in the Chinese government. First, it was part of the portfolio of Premier Li Keqiang, China's second-highest ranked politician and de facto 'HSR salesman'.[96] Xu Shaoshi, then head of China's powerful NDRC, was also dispatched as a special envoy of Xi to meet Jokowi on 10 August 2015, weeks before the winner of the project was announced. Xu was tasked to deliver a feasibility report and a five-point cooperative proposal for the project to the Indonesian president.[97] The report and related content were not revealed to the public, but they likely enhanced CREC's chances of bagging the deal.

Political considerations, both geopolitical and domestic, were arguably also at play in this decision. Existing research details Jokowi's desire to divert Indonesian diplomatic and economic relations away from Japan, especially in terms of infrastructure provision.[98] There

94 Agatha Kratz and Dragan Pavlićević, "Norm-Making, Norm-Taking or Norm-Shifting? A Case Study of Sino–Japanese Competition in the Jakarta–Bandung High-Speed Rail Project", *Third World Quarterly* 40, no. 6 (2019): 1107–26.

95 Stephen Harner, "Japan's Rail Project Loss to China: Why It Matters for Abe's Economic Diplomacy and for China's", *Forbes*, October 1, 2015.

96 "Li Keqiang: China's High-Speed Rail Salesman", *China.org.cn*, October 8, 2014.

97 Xiaolin Ma, "Let the Bullet Trains Fly", *Beijing Review*, September 2, 2015.

98 Kratz and Pavlićević, "Norm-Making, Norm-Taking".

was also a perception that Japanese programmes tend to come with rigid conditionalities, especially on sovereign guarantees and completion dates.[99] Furthermore, CREC promised to complete the project before Jokowi's presidential re-election campaign in April 2019, offering him an opportunity to demonstrate that he had fulfilled his pledge to uplift the country's infrastructure.[100]

KENYA: Standard Gauge Railway

Contractor: CRBC

In a bid to promote sustainable financing, China Exim Bank put forward a number of demands regarding debt management. It insisted that the Treasury produce evidence of how the government would contribute its 15% of the value of the project. It also demanded evidence of a clear land acquisition and community resettlement programme.[101] However, perhaps the most interesting demand concerned the debt servicing arrangement via guaranteed business at the Port of Mombasa. The bank insisted that the government open multiple escrow accounts in international banks where funds (from guaranteed business) would be deposited to repay both the loan principal and the interest on it. These funds had to be equivalent to one year's worth of interest and principal repayments.[102] To ensure that the funds were available, the bank insisted that the government compel the Kenya Ports Authority (KPA) and KRC to enter into a traffic arrangement whereby the KPA would offer sufficient amounts of cargo to the SGR when completed.[103]

The government met resistance in its attempt to meet the additional conditions. In the budget statement for the 2013/2014 financial year, the cabinet secretary for the National Treasury introduced a railway development levy charged at 1.5% of the customs value of all imports. All proceeds from the levy were to be directed to the Railway Development Levy Fund and administered in accordance with the Public Financial Management Act, 2012.[104]

In addition to the levy, the SGR's profitability depended on forcing all cargo transports from the port to Nairobi to be transported by rail. This proved politically unpopular with the powerful trucking lobby and the business community, because road transport was often cheaper. [105] Notably, one of the first measures President William Ruto took following

99 Guanie Lim, Chen Li and Emirza Adi Syailendra, "Why Is It So Hard to Push Chinese Railway Projects in Southeast Asia? The Role of Domestic Politics in Malaysia and Indonesia", *World Development* 138 (2021): 105272; Jessica C Liao and Saori N Katada, "Geoeconomics, Easy Money, and Political Opportunism: The Perils under China and Japan's High-Speed Rail Competition", *Contemporary Politics* 27, no. 1 (2021): 1–22.

100 Negara and Suryadinata, "Jakarta-Bandung High Speed".

101 Oscar Otele, "Understanding Kenyan Agency in the Acquisition and Utilization of Chinese Development Finance in the Transport Infrastructure, 2003–2017", (unpublished PhD diss., Shandong University, 2018).

102 Jaindi Kisero, "China's Conditions that Saw Birth of Railway Levy", *Daily Nation* (Nairobi), August 19, 2013.

103 Kisero, "China's Conditions that Saw".

104 Government of Kenya, Public Investments Committee, *Special Report on the Procurement*.

105 Chris Alden and Oscar Otele, "Fitting China In: Elite Collusion and Contestation along Kenya's Standard Gauge Railway", *African Affairs* 121, no. 484 (2022): 443–466.

his electoral victory in 2022 was to overturn the trucking ban. While politically popular, this move raised further doubts about the future commercial viability of the SGR.[106] It also affected the price of cargo bound for other East African Community member states and economic processing zones.

> The SGR's profitability depended on forcing all cargo transports from the port to Nairobi to be transported by rail. This proved politically unpopular

These dynamics weakened the SGR's originally planned impact, which was to act as a regional, trans-frontier transport solution linking land-locked East and Central African countries to the Port of Mombasa. The original development of the SGR was enhanced by a tripartite agreement comprising Kenya, Uganda and Rwanda. In 2016, however, Rwanda withdrew from the agreement, seriously impacting the project's regional ambitions.[107] This effect was compounded when Chinese funders refused to fund the third phase of the SGR, which would have linked it to the Ugandan border.[108] In the meanwhile, Rwanda signed on to a competing regional railway network project centring on the Tanzanian port of Dar es Salaam, raising the spectre of regional competition that would further weaken the SGR's commercial prospects.[109]

The construction of the SGR pushed the country's debt to China from $756 million in 2014 to $6.47 billion by 2019.[110] Before the completion of the SGR's Mombasa-Nairobi route, Onjala claimed that the railway line would improve transport efficiency as it was likely to 'boost traffic volumes to 5–10 million tons per year from the current less than 1 million tons per year, which should be enough to accommodate Kenya's and regional demand growth during the next decade'.[111] However, by mid-2020 the SGR had accumulated operating losses estimated at $200 million. Despite this, KRC was obliged to pay a fixed quarterly operation fee estimated at $28.8 million to Afristar, an operator owned by China Communications Construction Company (CCCC).[112]

106 Anthony Kitimo, "Kenya Quashes Order on Compulsory Use of SGR for Cargo Transport", *The East African*, September 26, 2022.
107 Gerald Andae, "Kenya to Terminate Railway at Kisumu after Rwanda Exit", tralac, May 18, 2016.
108 Alan Olingo, "Kenya Fails to Secure $3.6 Billion from China for Third Phase of the SGR Line to Kisumu", *The East African*, April 27, 2019.
109 Keith Barrow, "Rwanda and Tanzania Sign Standard Gauge Railway Agreement", *International Railway Journal*, January 19, 2018.
110 Eric Olander, "Kenya–China Debt Relief Talks Stall", China Global South Project, July 10, 2020.
111 Joseph Onjala, "China's Development Loans and the Threat of Debt Crisis in Kenya", *Development Policy Review* 36, no. 2 (2018): 710–728.
112 John Mutua, "SGR Services at Risk over Sh38bn China Firm Debt", *Business Daily* (Nairobi), June 9, 2020.

In the context of COVID-19-induced global economic threats, the economic situation could see Kenya defaulting on these loans.[113] The hard economic realities brought on by the pandemic and the Ukraine crisis are further worsening Kenya's debt distress.

In the context of COVID-19-induced global economic threats, the economic situation could see Kenya defaulting on these loans

Throughout these controversies the Uhuru Kenyatta administration refused to release contracts for the SGR, despite several court challenges that left it in contravention of Kenyan law.[114] After the 2022 election, in which the SGR proved to be a major political liability, the incoming Ruto administration released the payment agreements,[115] confirming rumours of a highly problematic deal.[116] However, despite many campaign promises to the contrary, the full SGR contract has still not been made public, fuelling fears of significant corruption. The Ruto administration has also indicated that it may want to renegotiate some of the SGR agreements with China.[117] So far there has been no indication that Chinese lenders will be willing to do so.

Inter-authority conflict and local governance in recipient countries

INDONESIA: Jakarta–Bandung High Speed Rail

Contractor: CREC

Straddling 150km, the $5.5 billion Jakarta–Bandung HSR project is arguably the highest-profile BRI project yet in Indonesia (and, by extension, Southeast Asia). When completed, it will connect Jakarta and Bandung (the country's largest and third-largest cities, respectively). The Jakarta–Bandung HSR was awarded to CREC in September 2015. A total of 75% of the project cost is covered by the CDB over a period of 40 years. The remaining cost is financed by Kereta Cepat Indonesia China (KCIC), an Indonesia–China joint venture.

113 Pádraig Carmody et al., "China's Spatial Fix and 'Debt Diplomacy' in Africa: Constraining Belt or Road to Economic Transformation?", *Canadian Journal of African Studies* (2021): 8.

114 Eric Olander, "Citing National Security, Kenya (Again) Refuses to Release SGR Contracts with China", China Global South Project, January 13, 2022.

115 Eric Olander, "New Kenyan Government Releases Controversial Chinese Loan Agreements for Standard Gauge Railway", China Global South Project, November 7, 2022.

116 A copy of the full payment agreement is available at China Exim Bank, "Preferential Buyer Credit Loan Agreement on Kenya Mombasa-Nairobi Standard Gauge Railway Project", May 11, 2014.

117 David Herbling, "Kenya Wants China to Extend $5 Billion Debt Repayment", *Bloomberg*, October 19, 2022.

KCIC is 60% owned by four Indonesian SOEs, with the remaining equity owned by a CREC-led consortium.[118]

The land required for the project amounts to about 6 043 million m2. Adding to the administrative hurdle is the dispersed nature of land ownership. A report shows that the area is spread across 6 331 land plots owned by residents, companies and government institutions.[119] The situation is not helped by seemingly opportunistic behaviour by local elites. For example, the West Bandung regent (Aa Umbara Sutisna) demanded that KCIC build additional facilities in return for the issuance of construction permits in his constituency.[120] Some of the more notable facilities are an access road, an exit toll station, the enlargement of the existing road between Cikalongwetan and Cipendeuy, a new stadium and free farming land for the West Bandung regency.[121]

Powerful government figures and organisations at the central level have challenged Jokowi. One of the loudest critics was Ignasius Jonan, the then minister of transportation, who felt that his ministry had been sidelined by the Ministry of SOEs in the implementation of the project.[122] Jonan embarrassed Jokowi when his ministry publicly declared – only five days after the Jakarta-Bandung HSR's ground-breaking ceremony – that it had not issued a building permit to KCIC because the latter had not submitted the necessary documents. The Ministry of Transportation also revealed that it had not issued the concession agreement to KCIC because it had yet to finalise several sensitive issues.[123] This public display of dissent soon led to Jonan's sacking.

The Indonesian military has also opposed Jokowi. In particular, conservative elements within the military continue to harbour misgivings about such large-scale projects, as they fear the latter's role as a possible conduit in transmitting China's Communist ideology to Indonesia.[124] This conservative bent was exploited in the run-up to the April 2019 presidential election. Using fiery rhetoric to undermine proponents of the Jakarta–Bandung HSR, Prabowo Subianto – a former commander of the Army Strategic Reserve Command – promised to conduct a thorough review of these projects if he was made president, claiming that 'we will get a better deal' from the Chinese.[125] Although Prabowo eventually lost the presidential race, on 23 October 2019 Jokowi appointed Prabowo as his minister of defence in an apparent move to co-opt this political opposition.

118 Negara and Suryadinata, "Jakarta-Bandung High Speed".
119 PwC, "Jakarta-Bandung High-Speed Railway Land Acquisition Is 99% Finished", September 2, 2019.
120 Lim, Li and Syailendra, 'Why Is It so Hard".
121 Putra Prima Perdana, "Bupati Bandung Barat: Saya bukan menolak Kereta Cepat, tetapi..." [West Bandung Regent: I Am Not rejecting HSR, but..."], *Kompas.com*, July 9, 2019; Putra Prima Perdana, "Ini Syarat Agar Bupati Bandung Barat Keluarkan Izin Proyek KA Cepat Jakarta-Bandung" [Here Are the Demands of the West Bandung Regent for the Issuance of Permits Related to the Jakarta-Bandung HSR], June 28, 2019.
122 Lim, Li and Syailendra, "Why Is It so Hard".
123 Farida Susanty, "High Speed Rail Grinds to Halt", *Jakarta Post*, January 27, 2016.
124 Gatra Priyandita, "Behind Indonesia's Red Scare", *The Diplomat*, June 14, 2016.
125 Karils Salna and Arys Aditya, "Indonesia May Be Next Asian Country to Spurn China in Election", *Bloomberg*, March 31, 2019.

ZIMBABWE: Hwange Coal-Fired Power Expansion

Contractor: Sinohydro

In May 2021 the Zimbabwean press reported that 480 households in the village of Ingagula, 100m away from the plant, would be displaced to make space for a 310km transmission line that forms part of the project. Project spokespeople insisted that these households would be compensated for the relocation, and that the entities involved were negotiating with local authorities to acquire land and construct new homes for displaced villagers.[126]

However, the project manager of the Unit 7 and 8 expansion reportedly admitted that the estimated $60 million it would cost to move the 480 households had not been budgeted for in the original project planning, and that Zimbabwe Power Company would have to raise it separately.[127] It was further revealed that three other communities between Hwange and the city of Bulawayo would also be affected by the construction of transmission lines.[128]

In addition, local communities complain that these projects have not significantly increased employment in the area. This has been exacerbated by the enmeshing of the Hwange plant in the area's wider coal economy. For example, there are allegations that workers at the Hwange Colliery Company have not been paid, and that the company is trying to evict them.[129] In July 2020 some of these workers sued the company. The lawsuit was reportedly focused on forcing the company to pay agreed-upon severance packages and to prevent workers from being evicted from company-owned housing, where some of them had lived for a decade.[130] The company has been involved in ongoing salary disputes for years, with claims of unpaid wages going back to 2013.[131] It was also reported that the company was planning on selling all the housing in a bid to cover outstanding debts. This was despite the fact that many workers still occupied those dwellings and were still working at the company, notwithstanding their complaints of unpaid wages.[132]

The governance impact of the Hwange project is similarly problematic. As noted, there seems to be little enforcement of transparency by authorities. Neither regular CSR reports from the company nor comprehensive EIAs are publicly available.

There also does not seem to be any conflict resolution mechanisms in place between local residents and the plant, leaving communities dependent on NGOs, the media, protest action and lawsuits to raise their concerns.

126 "Over 880 Households [sic: the body of the article states 480 households] in Hwange Ingagula Face Relocation to Pave Way for ZPC Expansion Project", *ZWNews*, May 21, 2021.
127 Leonard Ncube, "US$60m to Relocate 400+ Families from Hwange's Ingagula Suburb", *The Chronicle*, May 20, 2021.
128 Ncube, "US$60m to Relocate".
129 Simiso Mlevu, "Coal Investments in Zimbabwe: A Misplaced Priority", Centre for Natural Resource Governance, August 15, 2020.
130 "Hwange Colliery Ex-Workers Sue Coal Miner Over Evictions", *New Zimbabwe*, July 17, 2020.
131 Ray Mwareya, "Miners' Wives Take on a Zimbabwe Coal Giant to Pay Up Forgotten Wages", Women's Media Center, September 1, 2020.
132 "Struggling Coal Miner Wants to Sell Hwange Town Over $300m Debt", *New Zimbabwe*, May 10, 2018.

This lack of transparency tends to fuel speculation of complicity between government officials and outside interests. For example, in 2018 a forensic audit at Hwange Colliery Company accused its then-head Winston Chitando of presiding over the misuse of a $115.5 million loan. He was also accused of colluding with the company's board to divert profits, improperly trying to dismiss board members and attempting to intimidate critics.[133] Chitando was subsequently appointed as Zimbabwe's minister of mines and mining development.

Planning for long-term viability, economic sustainability and job creation

INDONESIA: Java-7 Coal-Fired Power Station – Gong Xue

Contractor: China Shenhua Energy

The Java-7 project was promoted as an example of the highest environmental standards for a coal-fired project. However, this was not consistent with the National Energy Plan of the Indonesian government. The National Energy Policy and the Mid-term National Development Plan both envisage a massive expansion in Indonesia's coal-fired electricity generation capacity, generating strong signals about future growth in domestic demand for coal. Although Indonesia has committed to lowering greenhouse gas emissions by tackling deforestation and promoting renewable energy, it does not mention coal and the planned massive build-out of coal generation capacity.[134] In 2015 Indonesia began its Clean and Clear programme to screen all mining licences and check for compliance with licence conditions. The national government also introduced a cap on overall coal production rates in its Mid-term National Development Plan for 2014–2019.[135] The national goal for renewable energy to use renewable sources for over 23% of Indonesian energy plants by 2025.[136] However, the Java-7 project will consume 7 million tons of coal each year, which raises questions about the country's commitment to renewable energy sources.

Despite the Java-7 project's commitment to low emissions, it was built during an already massive coal-related health emergency. There is strong evidence that the country's coal-fired power plants cause an estimated 7 100 premature deaths every year, according to research by Harvard University and Greenpeace Southeast Asia. The research estimates that this number will increase to over 28 000 per year if the Indonesian government continues with plans to build more than 100 new coal-fired power plants.[137]

133 Andrew Kunabura, "Hwange Rotten To The Core – Audit", *Zimbabwe Situation*, April 5, 2019; Veneranda Langa, "Minister Implicated in Hwange Looting", *NewsDay*, November 14, 2018.

134 Aaron Atteridge, May Thazin Aung and Agus Nugroho, "Contemporary Coal Dynamics in Indonesia" (Working Paper 2018-04, Stockholm Environment Institute, Stockholm, April 2018).

135 Atteridge, Aung and Nugroho, "Contemporary Coal Dynamics".

136 Ronna Nirmala, "In New China-Backed Power Plant, Activists Question Indonesia's Commitment to Clean Energy", *Benar News*, January 24, 2020.

137 Greenpeace Southeast Asia, "Research from Harvard Reveals Health Impacts of Indonesia's Coal Plants", August 12, 2015.

Despite the Java-7 project's commitment to low emissions, it was built during an already massive coal-related health emergency

In addition to environmental concerns, there are transparency and governance issues. Indonesian politicians have considerable financial interests in coal-fired power plants, strengthened by decentralised decision-making. Such decentralisation has generated a raft of incentive structures for local politicians to issue new permits to stimulate regional development.[138] Along with the lax policy environment, observers are also concerned about corruption in activities that incentivise local and national bureaucracies to support financing for coal-fired power plants.[139]

Despite significant investment in the National ICT Backbone Project (NICTBB), studies have noted the underutilisation of the infrastructure. According to a 2012 study, the NICTBB was operating at less than 10% of its installed capacity and reportedly even less of its design capacity.[140] Reasons identified for its underutilisation include undersubscription by telecom operators and infrastructure duplication. Mobile network operators such as Vodacom, Tigo and Halotel have invested in their own fibre networks and thus do not subscribe to the NICTBB. High tariff rates, connectivity prices, lack of local content, unfavourable government policies, poor after-sales support and management, and a lack of public awareness of the NICTBB were also identified as reasons for its underutilisation.[141] As a result, the project risks being labelled a white elephant despite its immense potential, if properly used and leveraged. This also poses concerns over the ability of the government to recoup its initial investments in the NICTBB. Although debt sustainability has not been a concern with the project, the Tanzanian government will have to recoup the infrastructure costs while ensure relatively low-cost wholesale access to accelerate broadband adoption. Going by access costs for individuals and the volatility of retail prices, it seems the Tanzanian government has been unsuccessful in balancing these two needs.

The Chinese-funded and implemented NICTBB is a much-needed infrastructural intervention in Tanzania's telecoms sector that, if leveraged appropriately by the Tanzanian government, could benefit the larger ecosystem of industries, businesses and individuals, as well as the East African telecoms landscape. On the one hand, Tanzania has profited from the NICTBB in terms of better connectivity and increased adoption of ICT and e-services. On the other hand, the impact of the project on skills and technology transfer is a mixed story. While there was significant workforce localisation on the project that paved the way

138 Atteridge, Aung and Nugroho, "Contemporary Coal Dynamics".
139 Atteridge, Aung and Nugroho, "Contemporary Coal Dynamics".
140 August B Kowero, *Exploiting the Potentials of the National Information and Communication Technology Broadband Backbone (NICTBB) in Tanzania, Study Report* (Dar es Salaam: Tanzania Country Level Knowledge Network, July 2012).
141 Kowero, *Exploiting the Potentials*, 7.

for some level of skills and knowledge transfer, this was limited, as the participation of local firms was restricted to the lower end of the technology value chain. There was also inadequate focus on local capacity building on the part of the Chinese contractor, with too few locals involved in operation and management. This contributed in part to the underutilisation of the infrastructure, which has a bearing on the ability of the Tanzanian government to generate substantial revenues from it and recoup its costs.

NIGERIA: NigComSat 1R Satellite Communications Network

Contractor: China Great Wall Industries Corp

The productivity of Chinese-funded infrastructure projects has been subject to debate. In the case of the NiGComSat-1R, underutilisation of the satellite has led to questions around its financial viability. Preceding the launch of the satellite, then Nigerian president Goodluck Jonathan reportedly stated that with the operationalisation of the NiGComSat-1R, Nigeria could reduce annual expenses from the use of foreign satellites by about $1 billion – a figure that industry stakeholders say is inflated.[142] The satellite was also expected to generate significant revenues for the Nigerian government, contribute to the diversification of the economy and reduce overreliance on oil. However, owing to its underutilisation, these economic gains have yet to materialise. Despite the fact that Nigerian Communication Satellite (NigComSat) Ltd (the SOE charged with managing the NiGComSat-1R) can provide the same services as foreign service providers, there has been little patronage from private telecom operators and government agencies. Instead, they still use foreign service providers, resulting in a continuous loss of potential revenue for NigComSat Ltd.[143] Among the government agencies that shun the NigComSat-1R is the government's own National Broadcasting service (NBC), which, when switching from analogue to digital terrestrial television broadcasting, picked Eutelsat, a European satellite operator.[144]

The productivity of Chinese-funded infrastructure projects has been subject to debate

One of the reasons for this disinterest is pricing. The president of the Association of Telecommunications Companies of Nigeria reportedly noted that foreign satellite services were cheaper than those of the in-country provider. The association has since

142 Peter Selding, "Nigcomsat-1R Launched Successfully by Long March", *Space News*, December 21, 2011.
143 Samson Akintaro, "Telcos: Why We Shun Nigeria's Multimillion Dollar Satellite", TRW Stockbrokers, July 30, 2018.
144 Emmanuel Okogba, "Underutilisation of Nigeria's Satellite in Orbit", *Vanguard*, May 15, 2021.

recommended a pricing review and provision of competitive services in order for NigComSat Ltd to attract local telecoms operators. It has also called for the management of the satellite – or parts thereof – it to be handed to private sector operators.[145]

In addition, the underutilisation of the satellite has been a subject of parliamentary inquiry. In October 2017 the Nigerian Parliament passed a motion mandating its IT committee to examine the matter and develop a usage guideline. In this case, underutilisation and lack of productivity were found to be the result of management issues, rather than a failure on the part of China to provide demand-driven infrastructure.

Another reason for the underutilisation of the satellite is the lack of backup. This issue is set to be addressed by the planned deployment of the NigComSat-2 and 3, a project expected to cost $550 million and to be funded by China Exim Bank.[146] This development is expected to ensure full utilisation as it will provide backup and ensure continuity of services should NigComSat-1R fail. This in turn is expected to increase customer confidence in NigComSat-1R and strengthen its coverage over other continents, including Europe and South America, potentially leading to wider market capture and patronage.[147] The financing agreement for the new satellites is expected to include an ownership stake for Chinese firm China Great Wall Industries Corporation (CGWIC) in NigComSat Ltd.[148] Although the percentage of China's equity in NigComSat Ltd is yet to be finalised, this agreement is expected to benefit both parties through business generation, wider market access, opportunities for skills development and technology transfer. There are existing contracts to provide in-orbit testing and spectrum management services for Belarus' Belinterstat-1 and an MOU with Turkey's TURKSTAT to collaborate on the delivery of satellite services and ground infrastructure sharing in Africa and Europe. The new projects should enable Nigeria to capture the African market and compete with Western operators.[149] The arrangement between China and Nigeria also gives NigComSat Ltd an opportunity to create linkages with China's other international satellite customers. This also allows China to expand its foothold in the communications satellite market in Africa. However, there are concerns about the proposed deal. The agreement on equity participation came about because of the inability of the Nigerian government to put up the finances for the required 15% counterpart funding for the China Exim Bank loan amid reports of NigComSat Ltd's poor financial performance and economic unviability.[150] While the Nigerian government views the deal as beneficial as it does not require any financial commitments from the state, the implications of the proposed CGWIC ownership stake in the state-owned NigComSat Ltd remain to be seen.

145 "Sell NigComSat-1R to Private Sector, IT Expert Tells Govt", *The Nation*, October 22, 2017.

146 Spacewatch Africa, "Nigeria's NigComSat Mired in Accusations of Excessive Pricing Policy", https://spacewatch.global/2018/08/nigerias-nigcomsat-mired-in-accusations-of-excessive-pricing-policy/.

147 Lawal Lasisi and Chris Chatwin, "Nigerian Communication Satellite NigComSat-1R KA-Band System" (Paper presented at 19th Ka and Broadband Communications, Navigation and Earth Observation Conference and 31st AIAA International Communications Satellite Systems Conference, October 2013).

148 Taiwo Ojoye, "China EXIM Bank, Firm to Fund NigComSat's $550m Satellites", *Punch*, January 4, 2018.

149 Vidya Sagar Reddy Avuthu, *China's Design to Capture Regional SatCom Markets*, *Special Report* 70 (Delhi: Observer Research Foundation, July 2018).

150 Emmanuel A Benson, "Chinese Company May Take Up Stake in Nigcomsat", *Nairametrics*, June 3, 2018.

CHAPTER 5

Discussion: Cross-cutting dynamics in Chinese infrastructure provision in Southeast Asia and Africa

As mentioned in the introduction, the first phase of this project entailed a comparison of instances of Chinese-led infrastructure provision in Africa and Southeast Asia by infrastructure sector.[151] This second phase of the research concentrates on identifying cross-cutting dynamics across geographical and sectoral boundaries. While the preceding section gave a selection of excerpts from research partners' working papers outlining these dynamics in context, in this section, these dynamics are identified and compared between Africa and Southeast Asia.

Tender and EIA processes

While there are numerous possible reasons for the problems experienced when Chinese firms engage in infrastructure projects in Africa and Southeast Asia, a strong argument could be made that the main fault lies with the procurement process itself. Evidence from the regional case studies points to a consistent pattern of sub-standard ESG practices by Chinese firms being linked to infrastructure projects that had undergone insufficient public tendering processes or open bidding and review in competition with other firms. Instead, the multimillion-dollar deals to build new port facilities, airports, hydro-electric dams etc. tended to be the product of bilateral discussions, often at the top leadership level, between the recipient country and China. In some cases, these were finalised as untendered contractual agreements whose terms were never made public. Too often, the result is that local communities only discover the details as components of the project are implemented, and then only partially.

While there are numerous possible reasons for the problems experienced when Chinese firms engage in infrastructure projects in Africa and Southeast Asia, a strong argument could be made that the main fault lies with the procurement process itself

151 Access those research outputs at SAIIA, "China Infrastructure Cooperation", https://saiia.org.za/tag/china-infrastructure-cooperation/

Linked to the issues surrounding the procurement process, in several cases there was evidence of a lack of comprehensive planning and broad implementation of EIA processes in advance of the project design or implementation phases. This failure to include proactive EIA reporting ensured that local and regional ecologies were not factored into the project design or implementation phases, increasing the likelihood of negative impacts. In some cases where EIA processes were incorporated, there were questions as to the perfunctory nature of the process or the independence of the companies used to conduct the EIA.

In the case of Cambodia's AAE-1 Undersea Data Cable System, where EIA standards as practised by the AIIB contrasted with those selectively used by CFOCN, transparency remained a problem despite the dissemination of the ESIA report. Investment and financing information, including whether this financing is via a loan, remains unavailable. In addition, the details on procurement and profit sharing are also not public.

In the case of Kenya's SGR, the constitution mandated the inclusion of environmental considerations in public procurement. Although Chinese companies responded by producing EIA reports, questions were raised by local environmentalists and MPs regarding the nature of the process: While the contractor's 2016 CSR report stated that the 'project strictly observed local environmental protection laws', legal action by environmental civil society groups soon led to a temporary work stoppage via a court injunction.[152] Civil society groups charged that the published impact assessments lacked objectivity and rigour.[153]

In fact, the paucity of EIA processes more generally is notable in another way: many of the bilateral negotiations between China and potential recipient countries revolve around infrastructure projects that had been on the national books for some time and/or were actively promoted by the recipient country leadership. Crucially, in some cases these very same projects had already been reviewed by multilateral banks and subjected to preliminary EIAs that had raised concerns regarding the damage (environmental or otherwise) likely to occur should the project go forward. These EIAs contributed to rejections for multilateral financing. Ironically, the much-celebrated 'demand-driven' approach of China's development aid programming – in contrast to claims of a 'one-size-fits-all' approach employed by so-called traditional donors – can work against recognition of the positive impact that public procurement can have on infrastructure sustainability. Similar arguments could be made about the 'no strings attached' mantra associated with China's lending, which occasionally dismisses EIA processes as an unnecessary conditionality inhibiting development.

Land acquisition, community relocation and livelihood disruptions

Problematic land acquisition processes showed up repeatedly in case studies from both Southeast Asia and Africa. These arguably formed part of the wider lack of recipient

152 Kenya Forum, "Tribunal Halts Construction".
153 Mwanza and Chumo, "Will the Iconic Park Survive?".

government oversight detailed in this report. When tendering and EIA processes are opaque and incomplete, there is also a greater danger that socio-economic impacts will go unmonitored and unmitigated. In addition, infighting between different local and national authorities (see below) can also leave gaps for opportunistic local actors to use relocation processes to their own advantage. In addition to these broader dynamics, certain specific patterns were detected.

Problematic land acquisition processes showed up repeatedly in case studies from both Southeast Asia and Africa

First, many of the examined projects are located in rural areas. During the initial phase of the BRI (roughly from 2013 to 2019), China tended to fund large-scale infrastructure. Some projects made use of landscape features such as rivers, or were so large that they had to be either wholly or partially located outside cities. In addition, one calculation by recipient governments in locating these initiatives is gaining more political control of far-flung areas through the optics of rural development (as shown below, these projects do not necessarily spark actual development). Beyond the calculus of using natural assets located in rural areas, Chinese infrastructure projects in Africa are also frequently beholden to political patronage, with projects disproportionally located in leaders' home districts, suggestive of underlying extraversion forces at work.[154]

These dynamics mean that many infrastructure projects end up in rural areas, where there is less oversight than in cities. They are also sometimes located in areas inhabited by minority populations with little political influence. In addition, these populations frequently depend on local environments to survive via fishing, foraging and so forth, and they frequently do not have formal ownership of the land.

These realities mean that in countries with weak regulation and enforcement, there is a high risk of land acquisition processes being affected by corruption or clientelism among local and national officials. This puts vulnerable rural populations in particular danger of being unfairly evicted, of losing their land tenure or of being unfairly compensated for the land used in large-scale infrastructure projects.

154 Axel Dreher et al., "African Leaders and the Geography of China's Foreign Assistance", *Journal of Development Economics* 140 (2019).

The SGR case study in Kenya showed that while these are largely local dynamics, they also affect the Chinese contractor, by adding logistical obstructions and by alienating the local community:[155]

> Land compensation was a nightmare for the CRBC even though this function rested squarely in Kenya's National Land Commission. The government secured land, [but] because of corruption, speculation, local clientelism and elites' manipulation, the costs became exorbitant.

Such effects are not limited to these populations, but tend to reverberate throughout the wider subregion.[156] For example, Cambodia's Lower Sesan 2 dam forced nearly 5 000 people, mostly Indigenous peoples and other ethnic minorities, from their homes, despite their generations-long presence in this region. The dam also impacted tens of thousands of people upstream and downstream, affecting local fishing and farming economies. The dam's impact ranges across the entire Mekong River system, with declining fisheries hitting tens of millions of people in Cambodia, Vietnam, Thailand and Laos.

The case studies in this project found that these communities' vulnerability extends beyond land tenure itself. Their broader dependence on an intact environment for their livelihoods overlaps with threats to formal land tenure. For example, in Kenya's LAPSSET (Lamu Port-South Sudan-Ethiopia) logistics corridor project,[157] which includes a significant upgrade of Lamu Port,[158]

> [t]he direct environmental impact also had socio-economic spillovers. The Kiunga Marine National Park is a source of income in both traditional fishing (by dhows from the island archipelago) and tourism. Fishing communities on the mainland and the Lamu island archipelago are worried about the impact of major shipping and development on their livelihoods. This was reportedly borne out by the damage inflicted on fishing grounds by the construction of the three berths and the accompanying dredging, according to local fishermen.

In addition to the direct impact of these projects on ecosystem-dependent livelihoods, the influx of foreign labour also tended to disrupt the lives of local communities. The importation of labour is one of the most controversial aspects of Chinese-led infrastructure projects in both Africa and Southeast Asia. A key aspect of this controversy arguably relates to its impact on existing local communities, who often do not only find themselves alienated from their customary land but also out-competed for jobs by foreigners. Despite

155 Yuan and Wissenbach, "Clientelism at Work?".
156 HRW, "Underwater: Human Rights Impacts of a China Belt and Road Project in Cambodia", August 2021.
157 Examined in an earlier phase of this project.
158 Chris Alden et al., "China-Driven Port Development: Lessons from Kenya and Malaysia" (Policy Briefing 257, SAIIA, Johannesburg, December 2021).

research showing declining rates of labour importation in Chinese-funded projects,[159] it remains a highly contentious issue.

Moreover, even when robust mitigation plans are in place, they do not necessarily ensure follow-through. For example, in the case of Ghana's Bui Dam,[160]

> The resettlement process was managed by the Ghanaian government and the Bui Power Authority [the local company managing the project]. The Ghanaian authorities based their resettlement plan on International Finance Corporation and World Bank standards, particularly the latter's Involuntary Resettlement Sourcebook, and Ghanaian legislation. One of the commitments was that local livelihood conditions would be replicated elsewhere. Because this is a fishing community, access to comparable fishing grounds formed part of this commitment. However, while increased water volumes led to an expansion in fish populations, the displaced communities lacked the requisite skills to take advantage of the improved fishing, and migrants from elsewhere benefited more. The BPA did not follow through on its commitments relating to skills development and technology transfer, which were intended to bridge knowledge and competency gaps. Overall, the local communities reported that the resettlement process had seriously compromised their livelihoods, while also prompting significant youth migration away from the area.

These dynamics frequently have their origins in the interactions between local communities and recipient governments (both central and regional). However, they also pose reputational dangers for the Chinese contractor, owing both to project disruption driven by unhappy local communities and to increased media and civil society attention paid to the project. For example, this project found significant civil society opposition to Chinese-led coal power projects in Zimbabwe, partly because of relocation and community livelihood concerns.[161] Since the publication of this project's initial round of reports, this standoff between communities and civil society organisations on the one side, and Chinese firms and the recipient government on the other, has hardened.[162] It has subsequently generated significant coverage and tends to overshadow other forms of coverage of these companies' work in Zimbabwe.

Debt transparency and financial governance

The impact of Chinese infrastructure provision on debt in the Global South has been one of the most prominent and controversial aspects of the large-scale infrastructure-focused

159 See, for example, Development Reimagined, "Chinese Workers in Africa: What's the Real Story?", October 8, 2020.

160 Examined in an earlier phase of this project. See Bradley Murg, Cobus van Staden and Duanyong Wang, "China-driven Hydropower: Lessons from Ghana and Cambodia" (Policy Briefing 254, SAIIA, Johannesburg, December 2021).

161 Gong Xue and Cobus van Staden, "China-driven Coal Power: Lessons from Zimbabwe and Indonesia" (Policy Briefing 258, SAIIA, Johannesburg, December 2021).

162 See, for example, Eric Olander, "Heated Confrontation Between Chinese Businesses and Civil Society Groups Intensifies in Zimbabwe", China Global South Project, January 24, 2022

phase of the BRI. External factors such as the COVID-19 pandemic and the Ukraine crisis added pressure on developing economies as large loans for infrastructure taken out during the late 2000s and early 2010s came due. The result was a wave of debt distress across the Global South, one that reflected two global trends: a rapid increase in commercial lending by Global South governments[163] and the proliferation of concessional loans from Chinese policy banks during roughly the same period.

The case studies show that debt governance by recipient governments plays a key role in the commercial viability of projects. They also uncovered several cases where high levels of opacity, lack of government capacity and clientelist tendencies contributed to worsening outcomes. In ESG terms, lapses in financial governance manifested as lessened environmental and socio-economic protection.

The high levels of opacity demanded by many Chinese financing contracts were shown to have lessened public trust in Chinese-funded infrastructure projects. This, together with gaps in government capacity (see below), created a low-trust, low-information environment in which it became difficult to disentangle problematic realities from rumours. This was in part owing to the fact that debt became a talking point in the larger geopolitical contestation between the US and China. The 'debt trap' narrative – according to which China uses debt to seize national assets from Global South countries – remains part of the discourse about Chinese lending, despite its having been debunked repeatedly in high-profile forums.[164] The prevalence of this narrative means that focusing public attention on the real problematic aspects of Chinese lending is still a challenge. High levels of opacity on both the Chinese and recipient-government sides significantly compound this challenge.

Kenya's SGR is an important example. The government of Uhuru Kenyatta, under whose stewardship the SGR deal was negotiated, fought hard to keep the terms of the agreement secret amid strong indications that officials from both the government and CRBC may have padded the deal with unwarranted costs. The Kenyatta government resisted legal pressure from civil society actors to release the loan agreements and the full project contract.[165]

Subsequent to the election, Kipchumba Murkomen, the country's incoming secretary of commerce, released copies of the loan agreements. At the time of writing the full loan contract had not yet been released.[166]

High levels of opacity together with perceptions of corruption frequently turn controversial projects into election issues, as seen in Kenya. In the case of Malaysia, the eventual result was that an incoming government forced the renegotiation of an earlier loan contract

163 Misheck Mutize, "African Governments Have Developed a Taste for Eurobonds: Why It's Dangerous", *The Conversation*, August 5, 2021.

164 See, for example, Deborah Brautigam and Meg Rithmire, "There Is No Chinese 'Debt Trap'", *The Atlantic*, February 6, 2021; Jevans Nyabiage, "'Debt Trap Diplomacy' a Myth: No Evidence China Pushes Poor Nations to Seize Their Assets, Says Academic", *South China Morning Post*, February 21, 2021.

165 Carlos Mureithi, "Kenya Is Refusing to Release the Loan Contracts for Its Chinese-Built Railway", *Quartz*, January 20, 2022.

166 Vincent Achuka, "Kenya's SGR Saga: The 'Dirty' Details That Were Not Disclose[d]", *The Citizen*, November 10, 2022.

on the grounds that the original negotiation process had been flawed.[167] In Kenya, the incoming transport secretary also raised the possibility of renegotiating the repayment terms of the SGR contract.[168] These cases show that high levels of opacity could raise reputational risks for both recipient governments and Chinese contractors, while also exposing the latter to the danger of disrupted project and repayment timelines.

High-profile cases of debt distress are currently increasing across the Global South. At the time of writing, Zambia, Sri Lanka and Chad are only the most prominent of several such instances. At the same time, concern about the impact of infrastructure loans is mounting in many countries. Over the past few years, national assemblies in several African countries, including Nigeria, Kenya and Uganda, have addressed the long-term impact of these loans.

However, these discussions also revealed a worrying lack of knowledge among policymakers about the mechanisms of Chinese deal-making. Legislators in Nigeria,[169] Kenya[170] and Uganda[171] have all misunderstood standard 'sovereign immunity' clauses in Chinese contracts. Perhaps influenced by misinformation around 'debt traps', these lawmakers assumed that the clause allows the selling off of national assets in the event of a default, when they actually only committed the countries to participating in arbitration processes.[172] The resultant media coverage significantly hindered discussions around much more worrying aspects of these contracts; for example, in the case of Kenya's SGR contract, how it committed Kenya to pursuing arbitration in Beijing (and in Chinese) rather than a neutral location.[173]

Beyond these breakdowns in capacity, the Ugandan hearings in the contract for the Entebbe Airport (a project that fell outside the current study) also revealed that high levels of opacity enabled striking lapses in governance. This echoed the point made above regarding problematic tender processes, as there was no open bidding process and no EIA at the time of signing.[174]

Recipient government capacity in negotiating loan contracts is becoming an important factor compounding the negative impacts of the high levels of secrecy that characterise Chinese infrastructure lending. Beyond improving capacity, recipient governments should also proactively promote transparency. AidData research has shown that many Chinese loan contracts contain clauses that allow for the public disclosure of the contract if

167 Tom Mitchell and Alice Woodhouse, "Malaysia Renegotiated China-Backed Rail Project to Avoid €5bn Fee", *Financial Times*, April 15, 2019.
168 Herbling, "Kenya Wants China".
169 Udora Orizu, "Loan Agreements: House Uncovers Clauses Ceding Nigeria's Sovereignty to China", *This Day*, July 29, 2020.
170 Njiraini Muchira, "Kenya: China Cannot Seize Port of Mombasa If Debt Default Occurs", *Maritime Executive*, March 16, 2021.
171 NTVUganda, "Finance Minister Admits to Loopholes in Entebbe Loan Agreement", YouTube, October 28, 2021.
172 See, for example, Deborah Brautigam, "Mombasa Port: How Kenya's auditor-general Misread China's Standard Gauge Railway Contracts", *The Conversation*, May 16, 2022.
173 Kevin Rotich, "Kenya: Standard Gauge Railway Disputes to Be Resolved in China If Friendly Consultation Fails", *Capital FM*, November 7, 2022.
174 Dedan Kimanthi, "Entebbe Expansion: CAA Signed MoU with CCCC Before Conducting Feasibility Study", *Chimp Reports*, February 15, 2022.

mandated by national law.[175] A lack of transparency was an ongoing theme throughout all the case studies, both in Africa and in Southeast Asia.

Inter-authority conflict and local governance in recipient countries

There is much literature on the role and significance of local agency in shaping China's involvement in developing financing, project design and implementation of infrastructure projects.[176] One aspect of this local agency that is overlooked, however, is its process-oriented dimensions, ie, inter-authority conflict and local governance dynamics that occur within the recipient country itself. These dynamics can have a profound impact on projects, in terms not only of project delivery but also of the project optics – hostile responses by displaced villagers framed in anti-China terms, for instance – and can call into question the underlying economic rationale of the project.

What the case studies from Africa and Southeast Asia demonstrate is that there is sometimes a disjuncture between the project negotiations undertaken at national level with Chinese officials and government ministries, and the regional or local authorities affected by the project. There can also be a disjuncture between the commitments set out in the agreements that ultimately flow from these negotiations. This manifests in inter-ministerial competition and neglect of local considerations in the agreement and project design with China, all of which is exacerbated by poor communication between national and local authorities.

Inter-ministerial competition over what is a high-value infrastructure project represents a debilitating source of conflict that can impact upon its implementation. For example, in the case of Indonesia's Jakarta-Bandung HSR, this took on the character of a very public struggle between different ministries and the presidency, leading to political embarrassment and project delays.

The failure to consider the concerns of local authorities and communities in the development of the agreement and design of the project can result in practical problems. These will, almost inevitably, guarantee dissent on the part of local communities and their representatives when it comes to project implementation. For example, the case of Zimbabwe's Hwange Coal-Fired Plant illustrates how the lack of engagement with local authorities and local communities resulted in a failure to incorporate key costings for relocation of people displaced by the project.

Another aspect of inter-authority conflict and local governance is problems associated with communication. Communication by the national government with local authorities and local communities is often lacking, with the result that the first time that they are made

175 Anna Gelpern et al., "How China Lends: A Rare Look Into 100 Debt Contracts with Foreign Governments", AidData, March 2021.

176 See for example, Chris Alden, Cobus van Staden and Yu-Shan Wu, "In the Driver's Seat? African Agency and Chinese Power" (Occasional Paper 286, SAIIA, Johannesburg, 2018); Frangton Chiyemura, Elisa Gambino and Tim Zajontz, "Infrastructure and the Politics of Africa State Agency: Shaping the Belt and Road Initiative in East Africa", *Chinese Political Science Review* 8, no. 1 (2023): 105–131.

aware of its existence may be during the actual implementation of the project. This feeds a residual suspicion on the part of locals that national governing elites are not disclosing all the terms of loan agreements or elite interests in those agreements. This suspicion is fuelled by the non-transparency of bilateral negotiations and often backed by a history of centre–local neglect. The saga around the disclosure of the loan agreement between China and Kenya to finance the SGR, initially driven by local authorities based in coastal constituencies affected by the project, underscores how poor or partial communication can negatively impact perceptions even after the physical infrastructure itself has been built.

Planning for long-term economic viability and job creation

The final challenge to Chinese-led infrastructure projects across the Global South outlined in this report is perhaps also the most difficult to address. The underlying ESG calculus of many large-scale projects is that environmental, social and financial costs are balanced by the resulting infrastructure's impact on economic development. However, the case studies showed that this logic is affected by many factors that can affect the eventual economic productivity of the infrastructure asset.

Rather than simply being a hurdle on the way to infrastructure delivery, the case studies show that ESG-related issues can even determine whether the project delivers an economic payoff at all.

Kenya's SGR is once again a key example. The newly released loan agreements show that the long-term profitability projection was dependent on ensuring that all goods transported between Mombasa and Nairobi used the SGR. That meant challenging the country's powerful trucking lobbies. The Kenyatta administration imposed a ban on transporting goods by truck, but that proved politically unfeasible and the decision was reversed following its defeat in the 2022 presidential election.[177] The decision raised serious questions about Kenya's ability to repay the loan in time, with the incoming transport secretary calling for an extension of the repayment window.[178] In turn, the SGR loan weighs heavily on the economic fortunes of the entire country, with Kenya currently being seen as in danger of debt distress.[179]

While the SGR is arguably a particularly egregious example of how lapses in governance can affect the economic viability of Chinese-led infrastructure projects, other case studies point in the same direction, not only in relation to individual governments but also as regards regional planning. For example, our research into Chinese-led hydropower provision in Southeast Asia showed little regional coordination on how upstream dams affect river-dependent industries such as agriculture downstream. Competition among littoral countries in Africa have similarly led to several competing Chinese-built port projects in

177 Anthony Kitimo, "Kenya Quashes Order on Compulsory Use of SGR for Cargo Transport", *The East African*, September 26, 2022.
178 Herbling, "Kenya Wants China".
179 International Monetary Fund, "Kenya: Debt Sustainability Analysis", March 19, 2021.

different countries, while a more coordinated approach emphasising regional connectivity could have boosted regional trade, especially in the context of the African Continental Free Trade Agreement. This reality is particularly visible in Kenya and Tanzania's competing regional rail network plans, detailed above.

More broadly, this relative lack of emphasis on maximising long-term regional impacts can arguably be linked to the constrained choices open to Global South countries in infrastructure funding. China's rapid rise to prominence as an infrastructure lender is partly a reflection of the relative dearth of choices open to these governments. While traditional multilateral development banks champion high ESG standards, they also demand long project development lead times, which frequently exceed democratic cycles in recipient countries. China offers an alternative set of financing options and shorter project lead times. However, these negotiations can be based on a 'going-going-gone' logic, which puts recipient governments under pressure to approve a project quite rapidly. Such rapid project development processes can pull resources away from wider economic sustainability planning.

The case studies have shown that recipient government legislation and implementation is one of the most salient factors in the successful ESG implementation of Chinese-led infrastructure projects. It is crucial that countries throughout the Global South develop shared, comprehensive and powerful ESG standards and implement them nationally, while working together to turn them into regional standards. To that end, the final section of this report will provide recommendations aimed at policymakers and other key stakeholders.

CHAPTER 6

Policy recommendations

This project used a cross-cutting, thematic approach to ESG implementation in Chinese-led infrastructure projects in Southeast Asia and Africa. Instead of the sector-specific approach we followed in the initial phase of the project (see Introduction), the second phase tried to identify shared dynamics occurring across sectors and regions. Guided by these findings, we offer 12 targeted recommendations to improve ESG implementation in future projects.

Recommendation 1

To recipient country lawmakers in recipient countries:

Require that loan contracts above $500 million be publicly disclosed and made available in a public database. Additionally, loans above $1 billion (or that represent a heavy burden on state finances) should require parliamentary approval or be put to a public referendum.

Recommendation 2

To China and Global Development Initiative (GDI) members:

Include a transparency commitment as part of the GDI. This would imply a commitment to release the terms of funded infrastructure projects above $500 million.

Recommendation 3

To all lawmakers in recipient counties:

All infrastructure projects (regardless of funding source) should be preceded by comprehensive and in-depth ESG feasibility studies carried out by independent providers in close consultation with all stakeholders.

Recommendation 4

To China and GDI members:

Establish a commission within the GDI to set the general terms and scope of ESG feasibility

studies, adjusting these to specific contexts in consultation with recipient countries' stakeholders. This commission should nominate independent service providers to conduct the feasibility studies, and coordinate with recipient country governments in assessing the reports and monitoring compliance throughout project implementation.

Recommendation 5

To China and GDI members:

Ensure that outreach via the GDI centralises a nuanced form of standard-setting that acknowledges recipient country complexity, while putting high ESG norms at the heart of development itself. The standards and metrics should be developed by members of the GDI.

Recommendation 6

To all stakeholders:

Design robust protocols that reflect the future commercial value of land, to ensure fair and inclusive land acquisition and relocation processes. A commitment by GDI members that the value of compensation to affected communities should reflect or at least take into consideration the future value of the land would be an important step.

Recommendation 7

To recipient governments:

Integrate human capital development measures into project planning, with a specific focus on local communities. These policies should be developed in close consultation with the affected communities.

Recommendation 8

To ASEAN and the AU:

Formulate and standardise shared universal ESG standards for infrastructure via the AU and Association of Southeast Asian Nations (ASEAN) architectures. These should include AU/ASEAN-wide commitments to loan transparency and the establishment of public loan contract databases.

Recommendation 9

To all stakeholders:

Include close consultations with civil society and community representatives in project-planning processes from the inception stage, in order to address their concerns early on and avoid protests and other delays during the project timeline.

Recommendation 10

To recipient governments:

Increase parliamentary oversight over the ESG implementation of major infrastructure projects by standardising mid-process ESG implementation reports in consultation with grassroots stakeholders.

Recommendation 11

To China:

Chinese authorities (including SASAC, MOFCOM, the China International Development Cooperation Agency and Chinese policy banks) should increase the positive impact of the impressive ESG regulatory progress made in China in recent years by extending these standards to Chinese SOEs' international projects. This would require putting in place a more efficient monitoring mechanism that pushes for the application of the same standards abroad when the recipient country's ESG standards are lacking or weaker (rather than allowing companies to adjust to local conditions).

Recommendation 12

To all stakeholders:

Establish a 'yellow card/red card' early warning system within the GDI in consultation with civil society organisations in recipient countries to flag the undercutting of ESG processes and other forms of elite capture of project protocols for political gain. Strengthen these oversight systems by setting in place an automatic project review mechanism triggered by a maximum number of 'yellow cards'.

CHAPTER 7

Conclusion

This report is the culmination of a two-phase research process. From 2020 to 2021 it produced a series of sector-specific comparisons of Chinese-led infrastructure projects in Southeast Asia and Africa. It concentrated on comparing ESG implementation in the coal electricity, hydropower, ports, rail and ICT sectors in Southeast Asian and African countries.[180]

The current report represents the second and final phase of the process – a re-examining of the research findings to identify cross-cutting dynamics that crop up repeatedly in Chinese-led infrastructure projects in both regions. The research revealed five particularly affected areas:

- tenders and ESG impact assessment processes;
- land acquisition, community relocation and livelihood destruction;
- debt transparency and financial governance;
- inter-authority conflict and local governance in recipient countries; and
- planning for long-term economic viability and job creation.

In response to these challenges the research team formulated 12 policy recommendations aimed at key stakeholders in Chinese-led infrastructure provision. While much more work needs to be done to unpack the complexities of local–global dynamics in Chinese infrastructure projects in the Global South and their impact on ESG implementation there, the current report is aimed at informing ongoing conversations about China's global influence and local responses to it.

180 The outputs from this phase of the project are available at SAIIA, "China Infrastructure Cooperation", https://saiia.org.za/tag/china-infrastructure-cooperation/.

African perspectives.
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