

How Green is China's Belt and Road Initiative?

by Alice Politi

China's Belt and Road Initiative (BRI) has been described as the largest infrastructure project in history, affecting around 60 per cent of the global population.¹ Whilst promoting a narrative of connectivity, growth and "win-win partnerships", the project has received opposing assessments regarding its wider impact, particularly in the environmental domain.

The implications are indeed colossal. Assessments posit that BRI-related infrastructure projects will necessarily pass through and compromise eco-fragile regions and key biodiversity areas worldwide, leading some to describe the initiative as the "riskiest environmental project in history".²

¹ Chinese Academy of International Trade and Economic Cooperation et al., *2017 Report on the Sustainable Development of Chinese Enterprises Overseas*, Beijing, United Nations Development Programme China, May 2017, <https://www.cn.undp.org/content/china/en/home/library/south-south-cooperation/2017-report-on-the-sustainable-development-of-chinese-enterprise.html>.

² Harry Cockburn, "China's \$8 Trillion

Such is its global reach that the BRI is recognised as instrumental in meeting global CO₂ emission targets, meaning that even if all non-BRI countries met their targets, a failure to comply with environmental standards for BRI-related projects would still cause a 2.7C increase in global temperatures.³

In 2016, President Xi Jinping committed to create a green and sustainable BRI. This followed the implementation of the concept of "ecological civilisation", introduced in the Constitution of the

Construction Programme 'Riskiest Environmental Project in History', in *The Independent*, 20 May 2018, <https://www.independent.co.uk/a8354256.html>; Alice C. Hughes, "Understanding and Minimizing Environmental Impacts of the Belt and Road Initiative", in *Conservation Biology*, Vol. 33, No. 4 (August 2019), p. 883-894, <https://doi.org/10.1111/cobi.13317>.

³ Tsinghua University Center for Finance and Development, Vivid Economics and ClimateWorks Foundation, *Decarbonizing the Belt and Road. A Green Finance Roadmap*, September 2019, p. 19 and 23, <https://www.vivideconomics.com/?p=9517>.

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Communist Party in 2012.⁴ Endorsing this concept in 2013, Xi promised to pursue climate change cooperation and oversee China's renewable energy transformation.⁵ In the framework of "greening the BRI", Chinese banks involved in funding BRI projects (such as NDB, AIIB, Silk Road Fund) have tried to include this concept in their investments, creating their own environmental guidelines.⁶

Faced with a domestic economic slowdown over recent years, Beijing has launched green financing initiatives to encourage both Chinese and international banks to finance the BRI. As a result, in April 2019, the Singapore branch of the Industrial and Commercial Bank of China issued the first green Belt & Road Interbank bond, worth 2.2 billion US dollars.⁷ More recently, the COVID-19 pandemic has caused considerable financial distress for BRI participant countries, many of which are relatively small economies with fewer possibilities to take on new debt financing.⁸ Yet, the overall

slowdown caused by COVID is on the whole expected to be manageable for banks and Chinese companies involved in the BRI.⁹

China is indeed trying to emerge as a green leader on the global stage.¹⁰ However, while domestically a commitment to comply with environmental targets is regulated through strict legislation and monitoring, externally, the BRI's environmental policies are characterised by "soft" governance and non-binding, target-setting documents, instead of specific regulation.¹¹ Despite the narrative promoted by the Chinese government of a "Green Silk Road", the environmental impact of many BRI-related projects continues to cause controversy. This includes effects on host country ecosystems and their biodiversity.

An example is the construction of a dam in the Batang Toru rainforest in

⁴ Zhang Yunfei, "Developing Socialist Ecological Civilization", in *China Daily*, 26 August 2019, http://www.chinadaily.com.cn/global/2019-08/26/content_37505503.htm.

⁵ Emil Beddari, "Environmental Sustainability", in Oxford University Silk Road Society, *Profit, Planet, People*, December 2020, p. 6-11, <https://www.silkroadsoc.com/planet-profit-people>.

⁶ Patrick Teese, "Exploring the Environmental Repercussions of China's Belt and Road Initiative", in *EESI Articles*, 30 October 2018, <https://www.eesi.org/articles/view/exploring-the-environmental-repercussions-of-chinas-belt-and-road-initiativ>.

⁷ Christian Shepherd, "China's Belt and Road Urged to Take Green Route", in *Financial Times*, 5 June 2020, <https://www.ft.com/content/e00426f4-8ead-11ea-af59-5283fc4c0cb0>.

⁸ Yen Nee Lee, "Credit Stress Hurts New Money Going into China's Massive Infrastructure

Project, Says Moody's", in *CNBC*, 24 November 2020, <https://cnb.cx/375vZqX>.

⁹ Moody's, *Post-pandemic Credit Stress Points to Leaner, Greener Future for Belt and Road*, 23 November 2020, https://www.moody's.com/research/Moodys-Post-pandemic-credit-stress-points-to-leaner-greener-future--PBC_1252085.

¹⁰ Renewables made up 18.5 per cent of new BRI contract values in 2014, which has increased to approximately 58 per cent in the first half of 2020. Data retrieved from: Lisa Tao, "China State-Owned Enterprises (SOEs) from an ESG Perspective", in *Invesco Insights*, 18 February 2021, <https://www.invesco.com/invest-china/en/institutional/insights/china-state-owned-enterprises-from-an-esg-perspective.html>.

¹¹ Joanna Coenen et al., "Environmental Governance of China's Belt and Road Initiative", in *Environmental Policy and Governance*, Vol. 31, No. 1 (January/February 2021), p. 3-17, <https://doi.org/10.1002/eet.1901>.

Indonesia. Its construction has had devastating effects on biodiversity, leading it to be legally challenged by the Indonesian Forum for the Environment (WALHI). The World Bank, meanwhile, has refused to fund the project over environmental concerns. Yet, in March 2019, the court in North Sumatra decided the project would proceed.¹²

Through equity and loans, Bank of China and the Chinese state-owned insurer Sinosure are funding the construction of the hydropower plant, which is built by the Indonesian firm PT North Sumatra Hydro Energy (NSHE) in partnership with the Chinese state-owned enterprise Sinohydro. After the legal challenge was rejected, Bank of China responded by stating that it "took note of the concerns expressed by some environmental organisations", promising to "evaluate the project very carefully and make prudent decisions".¹³

The construction of the hydropower project affects the Batang Toru rainforest in Indonesia, which is incredibly rich in biodiversity. In particular, the area is home of the rarest great ape species, the Tapanuli orangutan and the project directly threatens the last 800 living Tapanuli orangutans.¹⁴

¹² Tommy Apriando, "Orangutan Species at Risk of Extinction after Legal Challenge Fails", in *China Dialogue*, 19 March 2019, <https://chinadialogue.net/en/nature/11142>.

¹³ Bank of China, *Bank of China's Notes on the Hydroelectric Dam Project in Batang Toru of Indonesia*, 4 March 2019, https://www.bankofchina.com/en/bocinfo/bi2/201903/t20190304_14882309.html.

¹⁴ "World's Rarest Great Ape Faces Extinction", in *BBC Newsround*, 14 January 2021, <https://www.bbc.co.uk/newsround/55649845>; William F. Laurance et al., "Tapanuli Orangutan Endangered by Sumatran Hydropower Scheme",

The environmental impact also has wider implications, causing floods due to deforestation. Episodes of houses being overrun by timber being carried by the flooding river have been reported.¹⁵ The project may also be socially unsustainable because it plans to block the water of the river for most of the day and release it when the electricity demand peaks, consequently flooding farmland and therefore affecting a large part of the local population which depends on the river for agriculture and fishing.

As highlighted by a study conducted by Malaysian, Burmese, Chinese, Australian, British and American scientists, the BRI could severely impact ecosystems and terrestrial as well as marine biodiversity in Southeast Asia, affecting plants and animal habitats.¹⁶ This is due to infrastructure projects causing habitat fragmentation and isolation, facilitating the appearance of invasive species and putting animal lives at risk.

These implications are relevant on a global level as well. The COVID-19 pandemic should arouse awareness about the scale of the consequences that phenomena such as deforestation and habitat fragmentation have on our planet and lives. As underlined by a recent Stanford University study, deforestation and landscape

in *Nature Ecology & Evolution*, Vol. 4, No. 11 (November 2020), p. 1438-1439.

¹⁵ Tommy Apriando, "Orangutan Species at Risk of Extinction after Legal Challenge Fails", cit.

¹⁶ Li Shuen Ng et al., "The Scale of Biodiversity Impacts of the Belt and Road Initiative in Southeast Asia", in *Biological Conservation*, Vol. 248, August 2020, art. 108691.

fragmentation have been recognised as facilitating direct transmission of zoonotic infections, including the risk of pandemics.¹⁷

Another example of environmental concerns related to BRI infrastructure project is Montenegro's Bar-Boljare Motorway. The construction began in 2015 by the China Road and Bridge Corporation (CRBC), a subsidiary of the majority state owned China Communications Construction Company (CCCC), and is funded by China's EXIM Bank.¹⁸

Environmental concerns are specifically related to the Smokovac–Mateševac section of this project, which cuts across the Tara River, through an area protected by a UNESCO Biosphere. The most visible consequence of the project is the need for rock excavation for a motorway tunnel, but other implications, such as water pollution and illegal landfills also emerged from an investigation by the Montenegrin NGO MANS.¹⁹ The European Parliament

and European Commission have called on authorities to share more details about the project's environmental impact with the public.²⁰

What emerges from the Batang Toru hydropower plant and other BRI-linked projects such as that in Montenegro is the clear challenge of transparency. While China's BRI represents an alternative model of multilateral development not bound to institutions such as the World Bank or the International Monetary Fund, it also implies fewer third-party audits and public disclosures about investments and as well as less Environmental Impact Assessments (EIAs).

A feasible solution would be for Chinese authorities to establish biodiversity monitoring stations and, for roads and rails projects, investing in the construction of ecological corridors, allowing for movement of species.²¹ The introduction of such policies would not only limit the environmental impact of BRI projects, but it would also be beneficial for Chinese authorities in proving that the BRI can be environmentally sustainable.

¹⁷ Laura S. P. Bloomfield, Tyler L. McIntosh and Eric F. Lambin, "Habitat Fragmentation, Livelihood Behaviors, and Contact between People and Nonhuman Primates in Africa", in *Landscape Ecology*, Vol. 35, No. 4 (April 2020), p. 985-1000, <https://doi.org/10.1007/s10980-020-00995-w>; Jeff Tollefson, "Why Deforestation and Extinctions Make Pandemics More Likely", in *Nature*, Vol. 584 (13 August 2020), p. 175-176, <https://doi.org/10.1038/d41586-020-02341-1>.

¹⁸ Ailsa Brown, "Montenegro's Bar-Boljare Motorway: How Environmental Protection Frameworks Miss the Mark", in Oxford University Silk Road Society, *Profit, Planet, People*, December 2020, p. 16-19, <https://www.silkroadsoc.com/planet-profit-people>.

¹⁹ Dejan Milovac and Lazar Grdinić, "Will Tara Survive the Highway Construction?", in *MANS Case Studies*, October 2019, <http://www.mans.co.me/en/?p=7783>.

²⁰ European Parliament, *Resolution of 29 November 2018 on the 2018 Commission Report on Montenegro*, point 46, https://www.europarl.europa.eu/doceo/document/TA-8-2018-0482_EN.html; European Commission, *Montenegro 2020 Report* (SWD/2020/353), 6 October 2020, p. 110, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020SC0353>.

²¹ Xia Zhijian, "How Can the Belt and Road Better Protect Biodiversity?", in *China Dialogue*, 23 October 2020, <https://chinadialogue.net/en/nature/how-can-belt-and-road-protect-biodiversity>.

It is also advisable that host governments start implementing more transparent bidding processes for infrastructure projects, in order to reduce environmental damage and increase long-term net benefits. On the other hand, in order to assess the environmental sustainability of projects with more accuracy and transparency, banks involved in financing the BRI should rely on third party reports, rather than those produced internally.

In order to improve transparency, it would be useful for the Chinese government to create a public portfolio of BRI-related projects, which would make it easier to verify to what extent they are environmentally sustainable. China does not directly operate as a unified actor in BRI-related infrastructural projects, but different actors such as State-Owned Enterprises (SOEs) and banks contribute to the realisation and funding and these should be made to comply with environmental standards.

It would therefore be auspicious that Chinese authorities introduced more rigorous environmental standards for Chinese SOEs and banks contributing to BRI-related projects. This would contribute to create higher compliance with international standards and would also provide benefits to China itself. This also arises in the case of Montenegro's Bar-Boljare Motorway, which has been criticised for having insufficient EIAs.²²

Yet, the broad diversity of actors involved in these BRI-related projects

²² Dejan Milovac and Lazar Grdinić, "Will Tara Survive the Highway Construction?", cit.

poses challenges in establishing clear guidelines and responsibility for environmental sustainability.²³ Overall, it is particularly challenging for international actors, such as the EU, to pressure China to increase transparency and enhance environmental standards in BRI-related projects, particularly in Southeast Asia where Beijing's influence is greatest.

Yet, all hope is not lost. China has shown an openness to pursue cooperation on climate change and is seeking to consolidate its image as a green power on the world stage. China has cooperated with the EU since 2005 with the EU-China Partnership on Climate Change, arriving to 2018 Leaders' statement and Xi's 2020 carbon neutrality announcement.²⁴ Moreover, it is clear that China remains an indispensable partner in the global fight against climate change, as Beijing remains the world's largest emitter of greenhouse gases.²⁵

Against this backdrop, it is advisable that the EU work to solidify the EU-China high-level dialogue on climate and the environment,²⁶ which currently focuses on short-term emissions targets, the

²³ Emil Beddari, "Environmental Sustainability", cit., p. 9.

²⁴ European Commission website: *Climate Action - China*, https://ec.europa.eu/clima/policies/international/cooperation/china_en.

²⁵ Janka Oertel, Jennifer Tollmann and Byford Tsang, "Climate Superpowers: How the EU and China Can Compete and Cooperate for a Green Future", in *ECFR Policy Briefs*, December 2020, <https://ecfr.eu/?p=63716>.

²⁶ The first High-level Environment and Climate Dialogue between China and the EU was held by Chinese Vice Premier Han Zheng and Executive Vice President of the European Commission Frans Timmermans on 1st February 2021.

transition to carbon neutrality and the COP15 outcomes on biodiversity.²⁷ Dialogue on these themes is crucial to ensure successful European and Chinese actions in sight of COP26,²⁸ together with facilitating cooperation on the issues posed by the green transition.²⁹

In order to reduce the environmental impact of China's infrastructure projects outside its borders, the EU should seriously engage Beijing, seeking to ensure that BRI related investments are in line with international standards, including the sustainable development agenda 2030. This can happen through dialogue despite the many – and growing – political differences between Brussels and Beijing and be reinforced through multilateral formats and negotiations.

Engaging does not mean agreeing with everything that China does. On the contrary, the rise of China should be seen as a multidimensional challenge. The EU should distinguish fields of divergence from those where collaboration is not only possible, but indispensable to build a sustainable future for all, beginning from the climate emergency and the shared interest of both China and Europe to assume a global leadership role in this domain.

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²⁷ "China, EU Hold High-Level Dialogue on Environment, Climate", in *XinhuaNet*, 2 February 2021, http://www.xinhuanet.com/english/2021-02/02/c_139715394.htm.

²⁸ 2021 United Nations Climate Change Conference.

²⁹ Janka Oertel, Jennifer Tollmann and Byford Tsang, "Climate Superpowers", cit.

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