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China's Environmental Footprint in Africa

Peter Bosshard¹

Along with its economic presence, China has rapidly expanded its environmental footprint in Africa. An important objective of China's Africa strategy is to extract natural resources which have so far not been accessible. Such resources are often located in fragile ecosystems and countries with weak governance systems. As a long-term partner in Africa's development, China has an interest in addressing the environmental impacts of its projects. The Chinese government has issued guidelines on the impacts of overseas investments, but will need to strengthen them further.

China's Africa strategy

China and Africa have rapidly expanded their political and economic relations since the turn of the century. China – “the world's factory” – is trying to secure access to resources in Africa which it lacks at home. In addition, Africa offers a welcome market for Chinese companies which face stiff competition at home. The Chinese state supports the investment in African resources, and the creation of jobs which can stave off the country's permanent unemployment crisis.

Africa has for a long time been a primary source of natural resources for the European and American markets. China's strategy is to access resources which have so far not been exploited because they were considered insignificant in size, geographically too remote or politically risky by Western companies. This strategy requires massive investments in mines, oil exploration and auxiliary infrastructure such as pipelines, roads, railways, power plants and transmission lines.

Sudan is a typical example for China's integrated investment strategy. The China National Petroleum Corporation entered Sudan in 1995, and expanded its exploration after Western competitors withdrew because of public outrage over their complicity in the country's civil war.² In 2005, Sudan provided 5% of China's oil imports, and China is the largest importer of Sudanese oil.³ In support of this role, China invested in a pipeline, an oil refinery, a railroad, and several thermal and hydroelectric power plants such as the Merowe Dam (see below). China is implementing similar investment packages in Angola, Congo, Ethiopia, Gabon, and Zambia.

China's economic expansion in Africa is carried forward by thousands of individual entrepreneurs, a small number of large, state-owned enterprises, and a host of companies owned by provincial and municipal authorities. While small private enterprises dominate investment in commerce and manufacturing, state-owned enterprises typically invest in extractive and infrastructure projects. In integrated investment packages, government institutions and state-owned companies closely work

together. The Chinese government's active involvement in resource extraction is not fundamentally different from the financial, political and military support granted to oil and mining operations by the US, French or South African governments.

The Chinese government does not directly interfere in the investment decision of the enterprises it owns, but offers support and incentives in the form of finance and diplomatic support. While small enterprises finance their investments through family ties and informal capital markets, China Exim Bank is a key source of finance for the Africa projects of state-owned enterprises.

The role of China Exim Bank

The China Export Import Bank was established in 1994 to promote Chinese exports, and reports directly to the State Council. Various parts of its activities are overseen by the Ministries of Finance and Commerce, the People's Bank of China, and the China Bank Regulatory Commission. The Bank of China has to approve China Exim Bank's credit plans, and the State Council approves buyers' credits of more than \$100 million. The Bank is more than the administrative arm of China's export promotion, however, and enjoys "relative autonomy in its project evaluation and approval process".⁴ Over the medium term, the government plans to turn China Exim Bank into a commercial institution.

China Exim Bank provides export credits to Chinese companies and foreign clients, lends on foreign government loans for projects in China, offers foreign exchange guarantees, and administers the Chinese government's concessional loans to foreign governments. The Bank even finances Chinese imports in order to reduce the country's trade surplus.

China Exim Bank pursues a "two-big strategy" of focusing on big companies and big-ticket projects. The Bank extends 90% of its export credits to state-owned enterprises and to large projects (of more than RMB 100 million each).⁵ As part of China's "go global" strategy, China Exim Bank offers strategic overseas investors an interest discount.

At the end of 2007, the outstanding loans on China Exim Bank's balance sheet amounted to RMB 321 billion. The Bank approved RMB 263 billion and disbursed RMB 196 billion in loans in 2007.⁶ By this date, China Exim Bank had already outgrown the World Bank and all other export credit agencies.

According to official data, China Exim Bank approved loans for more than RMB 100 billion for Africa by June 2007, and its outstanding loans in Africa amounted to RMB 50 billion.⁷ In September 2006, the Bank entertained relations with 36 African countries, and had 259 African projects in its portfolio.⁸ The World Bank estimates that more than 80% of these loans were concentrated on Angola, Nigeria, Mozambique,

Sudan and Zimbabwe. Projects in the power sector accounted for about 40% of the commitments, followed by general or multiple-sector commitments (24%), transport (20%), telecom (12%), and water projects (4%).⁹

China Exim Bank's concessional loans are an important part of the country's official development assistance. Projects supported by soft loans need to be approved by the Ministry of Commerce and the host government. During the 2001-05 period, the Bank approved 78 such loans.¹⁰ By November 2006, China had signed 27 framework agreements regarding concessional loans with African governments.¹¹

China Exim Bank is expanding its exposure in Africa quickly. At the Beijing summit of the Forum on China-Africa Cooperation in November 2006, President Hu Jintao announced that China would provide \$3 billion in preferential loans and \$2 billion in preferential buyer's credits to Africa in the next three years.¹² In May 2007, China Exim Bank pledged to commit approximately \$20 billion for loans to Africa over the next three years.¹³ In comparison, the World Bank approved projects for \$4.8 billion for Africa in 2006.

China Exim Bank is not the only Chinese policy bank which supports trade and investment in Africa. In May 2007, China Development Bank (CDB) announced the creation of a China-Africa Development Fund to support Chinese equity investments in African infrastructure, agricultural and manufacturing projects. The fund had an initial capital of \$1 billion, and was expected to grow to \$5 billion.¹⁴ While China Exim Bank has more expertise in financing projects in Africa, the CDB has financed large infrastructure schemes such as the Three Gorges Dam in China. And unlike the export credit agency, it has experience in sponsoring equity investments.

The environmental impacts of China's expansion in Africa

The rapidly growing economic ties with China have contributed to Africa's strong economic growth in recent years.¹⁵ As a developing country, China can offer experiences and goods that are better suited to the needs of African societies than the advice and products from industrialized countries. For example, China is a world leader in renewable energy technologies, which are essential for rural electrification in Africa. Chinese investment and consumer goods are usually more affordable than Western products. Finally, Chinese loans and aid flows allow African governments to eschew the often dogmatic economic policy conditions of international financial institutions.

China has become the world's factory. China's Africa strategy strengthens the continent's traditional role as a supplier of resources for global manufacturing. It mirrors what has been the dominant approach of Western governments and corporations to Africa's development for many decades.

A development strategy which prioritizes resource extraction for the global market requires centralized, capital-intensive investments, which can be enforced with authoritarian means if necessary. Such a strategy may promote short-term economic growth, but often brings about a “recourse curse” over the longer term. Because so much power hinges on controlling the central government, the strategy does not strengthen public participation in decision-making, but deepens internal tensions and conflict. It does not address the economic potential of the poor, but puts people who stand in the way of resource extraction at risk.

Civil society and academic observers have expressed concerns about the impacts of China’s economic expansion on Africa’s governance, human rights, the environment, local employment and labor conditions, product quality, and the sustainability of the continent’s debt burden. This paper focuses on the environmental impacts.¹⁶ Concerns over China’s environmental footprint in Africa have arisen for at least five reasons:

- China’s investments in Africa are concentrated in sectors which are environmentally sensitive (such as oil and gas exploration, mining, hydropower, and timber), and in infrastructure projects which help to facilitate environmentally sensitive investments (such as roads, railway and transmission lines).
- While investments in the mining, oil, gas, hydropower and timber sectors generally carry high environmental risks, China’s strategy of making previously inaccessible resources accessible compounds these risks. Chinese investors are developing projects in remote, ecologically fragile regions, in areas that have so far been protected as national parks, and in countries with weak governance structures.
- China’s domestic policies have prioritized economic growth over the protection of the environment, with harrowing results. The Chinese government has set in place laws, regulations and institutions to protect the environment, but with limited success.¹⁷ China risks exporting its domestic environmental track record to other parts of the world through its foreign investment strategy. Its domestic environmental policies may even encourage China’s worst polluters to relocate their production to places like Africa.
- International financial institutions have since the 1990s adopted environmental guidelines and standards to address the environmental impacts of their projects. Major Chinese investors, financiers and equipment suppliers have so far not adopted such standards, or have developed policies which are not necessarily in line with international standards. Western financiers and companies are concerned that Chinese competitors are using lower environmental standards as a strategy to win a larger business share in the international infrastructure and extractive sectors.

- China's economic expansion in Africa has added to Western concerns that the country's rapid economic growth will put a heavy strain on the world's resources and the global environment.

Some high-profile examples have illustrated the risks created by Chinese investments for Africa's environment. In Gabon, Sinopec explored for oil in Loango National Park until the country's national park service ordered exploration to stop in September 2006.¹⁸ Conservation groups had pointed out that oil exploration threatened rare plants and animals, and the environmental impact study had not been approved by the environment ministry. China's Kongou Dam, which has been proposed to power the Belinga iron ore project in Gabon, could negatively impact the forests of the Ivindo National Park. Sinohydro's Bui Dam, a project being financed by China Exim Bank, will flood about a quarter of Bui National Park in Ghana. The Lower Kafue Gorge Dam, a Sinohydro project being financed by China Exim Bank in Zambia, will put additional pressure on the ecologically important Kafue Flats and its national parks.

Zambia's government had unsuccessfully tried to attract funding from private Western investors, the World Bank and the European Investment Bank (EIB) for the Lower Kafue Gorge Project for several years. After a government delegation visited China in October 2003, Zambia's electricity utility signed a Memorandum of Understanding with Sinohydro within a few weeks.¹⁹ Ghana's government failed to get the Bui Dam funded by the World Bank and the EIB before approaching China Exim Bank. Chinese support also allowed the Merowe Dam in Sudan to go forward after the Sudanese government failed to attract funding from Western financiers.

The Merowe Dam in Sudan

With a price tag of \$2 billion and a capacity of 1,250 megawatts, the Merowe Dam will more than double Sudan's power generation. Dam construction started in 2004, and is scheduled to be completed in mid-2008. The project's electricity will mainly serve the cities of Khartoum, Port Sudan, and Dongola.

In the late 1990s, the Sudanese authorities approached Canada, China, Malaysia, European and Arab countries in the search for funding, but without success.²⁰ Sudan was in arrears with its debt service to the World Bank and the International Monetary Fund. And COFACE, the official export credit agency of France, rejected support because of the project's environmental and social impacts.

China did not share the scruples of Western financiers. China Exim Bank agreed to fund the Merowe Dam in 2002. With support of \$520 million, the Bank is the main foreign financier of the project. Other funders include the Arab Fund for Economic and Social Development and the development funds of several Arab governments.²¹ The dam is being built by the China International Water & Electric Corporation and the China

National Water Resources & Hydropower Engineering Corporation. Sudanese, German, French and Swiss companies are also involved in the project.

In February 2005, President El Bashir asserted that the project would end poverty in Sudan.²² Yet the dam will have massive social and environmental impacts. Its 174 kilometer-long reservoir will displace up to 70,000 people from the fertile Nile Valley to arid desert locations. The project authorities promised to provide irrigation water to the resettlement sites, but the soils are so poor that this does not offer the displaced farmers a realistic source of livelihood. A visit to the project's first resettlement site in February 2005 showed that the poverty rate was rapidly increasing among the displaced people.²³

Lahmeyer International, one of the companies involved in the project, prepared a brief environmental assessment of the Merowe Dam in April 2002. The assessment asserts that all negative impacts of the dam can be mitigated, and that the project will have beneficial impacts on wildlife, the welfare of the affected people, and health.²⁴ In violation of Sudan's Environmental Protection Act of 2000, the Ministry of Environment's technical body was never allowed to review and certify the environmental assessment of the Merowe Dam.

In March 2006, EAWAG, the Swiss Federal Institute of Aquatic Science and Technology, carried out an independent review of the Merowe Dam's environmental impacts. The EAWAG review predicted that strongly fluctuating water levels and sedimentation would have serious negative impacts on aquatic ecology, water quality and public health. It concluded that the Lahmeyer report was "far from meeting European or international standards", and that "[k]ey environmental issues such as reservoir sedimentation, irrigation, water quality, [and] downstream ecological impacts resulting from hydropеaking were not addressed adequately".²⁵

In 2006, UNEP assessed the environmental impacts of the Merowe Dam as part of a post-conflict environmental assessment of Sudan. The UNEP appraisal "indicated several significant impacts that were not addressed in the EIA", and in particular the following: silt loss for flood recession agriculture, dam sedimentation, riverbank erosion, reduced river valley groundwater recharge, blocking of fish migrations and the impact on locally endangered species such as the Nile crocodile.²⁶

The communities which have not yet been displaced for the Merowe Dam ask to be resettled at the shores of the new reservoir rather than the proposed desert locations. The project authorities have responded with strong repression to these demands. In one incident in April 2006, militias of the project authority killed three people and wounded 47 others.

In August 2007, the UN Special Rapporteur on housing rights expressed concern about "numerous reports of violations of civil and political rights due to the government's response to community protests" in the Merowe Project. This included "the shooting of unarmed demonstrators, arbitrary arrests of activists, and repressive measures against the press when journalists have attempted to cover the events". He "strongly encourage[d]

that States, in particular China, Germany and France, ensure that the work of their national companies does not – directly or indirectly – negatively impact the human rights of the affected people”.²⁷

In response to civil society concerns regarding the Merowe Dam, Yu Jiang, a spokesperson of China’s Foreign Ministry, stated on May 22, 2007:

“In the relevant cooperation, China attaches great importance to the local people’s livelihood, takes the possible environment effect seriously and applies strict environment evaluation and standards. (...) As for the Merowe Dam project in Sudan mentioned by some groups, relevant Chinese enterprises won the bidding of the project and its completion will be conducive to local economic and social development as well as local people’s livelihood.”²⁸

In a meeting with the author in December 2006, Li Ruogu, the President of China Exim Bank, acknowledged that he had heard about problems with the Merowe Dam. He said that a China Exim Bank team would visit Sudan to investigate the problems. No information is available about the outcome of such a visit.

The Sudanese government began exploratory work for the Kajbar Dam in Northern Sudan in April 2007, and Chinese engineers participated in this work. The project preparations triggered strong opposition by the affected communities, and several protesters were killed, wounded or detained by Sudanese security forces. In September 2007, Chinese government officials insisted that China had not committed any funding for the Kajbar Dam. It will be telling to see whether after the experience with the Merowe Dam, Chinese companies and financiers will become involved in the Kajbar Project.

African and Western reactions to China’s environmental footprint

African governments of all political stripes have strongly welcomed China’s growing presence on the continent. They have not only expressed appreciation for the economic boost triggered by Chinese investment, but also the pragmatic and speedy way in which China has delivered aid projects, often irrespective of concerns over corruption and environmental impacts. Summing up a widely held impression, Sahr Johnny, Sierra Leone’s ambassador to China, in 2005 summarized a meeting with Chinese investors as follows:

“The Chinese are doing more than the G8 to make poverty history. If a G8 country had wanted to rebuild the stadium, we’d still be holding meetings! The Chinese just come and do it. They don’t hold meetings about environmental impact assessment, human rights, bad governance and good governance. I’m not saying it’s right, just that Chinese investment is succeeding because they don’t set high benchmarks.”²⁹

African governments have expressed concerns when cheap Chinese investors wiped out local textile (and other) industries, preferred Chinese over African workers, or did not comply with local labor laws. Very few concerns have been recorded regarding the environmental impacts of Chinese investments. In a few countries such as Gabon, governments have responded to civil society appeals by requiring stronger environmental due diligence for Chinese projects. In January 2008, Sierra Leone banned timber exports because, as the country's environment minister said in an interview with BBC, Chinese and other logging companies were plundering forests without any respect for the law.³⁰ And a task force of the African Union urged all actors in September 2006 to “[e]nsure that China pays more attention to the protection of the environment in its investment practices”.³¹

Since the 1980s, multilateral development banks have adopted safeguard policies that address the social and environmental impacts of their projects. In December 2001, the export credit agencies of the OECD also established common environmental guidelines in their Common Approaches to the Environment.³² Under these Common Approaches, the export credit agencies committed to “benchmark projects against host country standards, against one or more relevant environmental standards and guidelines published by the World Bank Group” or other multilateral development banks.³³

China is not a member of the OECD, and China Exim Bank has not signed on to the Common Approaches. Representatives of international and Western financial institutions are concerned that Chinese banks will take up projects that they rejected because of unacceptable environmental risks. There is ample anecdotal evidence to suggest that borrowing governments use the availability of Chinese funding to pressure other financiers to weaken their environmental standards, or to flout them in specific projects.

In October 2006, then World Bank President Paul Wolfowitz warned:

“Almost 80% of the world’s commercial banks respect [the Equator Principles] when they finance projects. The large Chinese banks do not apply them. True, they are relatively new to this type of activity in Africa. But they should not make the same mistakes which France and the United States have made in Mobutu’s Zaire... Let’s be honest, this would be terrible, a true scandal.”³⁴

Around the same time, Philippe Maystadt, the President of the European Investment Bank, criticized Chinese financiers even more bluntly. “The competition of the Chinese banks is clear”, Maystadt said according to the *Financial Times*. “They don’t bother about social or human rights conditions.” The EIB President claimed that Chinese banks had snatched projects from under his bank’s nose in Africa and Asia, after offering to undercut EIB conditions on labor standards and the environment.³⁵

Maystadt and others recommend that international financial institutions should lower their own standards in response to Chinese competition. The EIB President argued that international financial institutions needed to avoid “excessive” conditions, and had to

“think about the degree of conditionality we want to impose”.³⁶ The Chinese financiers’ lack of stringent environmental standards may not only cause serious environmental impacts in specific projects, but also trigger a broader race to the bottom regarding the environmental standards of financial institutions.

In July 2007, the OECD published its first Environmental Performance Review of China. The review argued that “[s]tronger efforts are needed by the government to ensure that Chinese corporations operating overseas, particularly in such environmentally sensitive industries as forest products and mining, are positive contributors to China’s stated goal of building an international reputation for sound environmental management and sustainable development”. It recommended that China “improve governmental oversight and environmental performance in the overseas operations of Chinese corporations”, and “integrate environmental considerations systematically into China’s growing development cooperation programme”.³⁷

The changing foreign policy context

China’s traditional response to concerns about the environmental impacts of overseas projects is that China does not interfere in the domestic affairs of other countries. China’s African Policy of January 2006 stresses that China “respects African countries’ independent choice of the road of development”, and will “increase assistance to African nations with no political strings attached”.³⁸ Yet the reality of China’s foreign policy is more complex than public announcements indicate, and has evolved over time.

The cause célèbre of China’s Africa policy is Sudan. In 2004, China’s deputy foreign minister Zhou Wenzhong famously commented on the human rights crisis in Darfur: “Business is business. We try to separate politics from business. Secondly, I think the internal situation in the Sudan is an internal affair, and we are not in a position to impose upon them.”³⁹ As Erica Downs of the Brookings Institution observed, China’s government rapidly learned that separating business from politics is easier said than done.⁴⁰

After providing diplomatic cover for the Sudanese government in the UN Security Council for several years, China was instrumental in brokering a Security Council resolution which established a joint UN-African Union peacekeeping force in Darfur in July 2007.⁴¹ China’s ambassador to the UN indicated that President Hu Jintao had put strong pressure on the Sudanese government to accept such a force in February 2007. In March 2007, China also removed Sudan (and eight other countries) from the list of destinations for which Chinese investors receive incentives such as concessional export credits.⁴²

Concern for its international reputation was probably an important factor in China’s changing position on Sudan. Darfur campaigners threatened to label the Beijing Olympics as “Genocide Olympics”, and African governments also expected Beijing to

contribute to a resolution of the Darfur crisis. Yet more generally, the Chinese government seems to have concluded that strict non-interference was not an option for a long-term investor in Africa. Chinese investors have an interest in stability. A growing number of incidents involving Chinese companies demonstrate that stability is elusive without peace and the protection of human rights and the environment.

According to a report in the *New York Times*, the China National Petroleum Company is interested in exploring oilfields in Eastern Chad, and eventually linking Chad's oilfields to Sudanese pipelines.⁴³ This will not be possible without peace in Darfur. In Somalia, Chinese oil companies got involved in a conflict over the country's oil resources between competing political factions. In countries such as Ethiopia, Kenya, Nigeria, Sudan and Zambia, Chinese installations were repeatedly attacked by criminal gangs and rebel groups in recent years. In some of these incidents, rebel groups appear to have identified Chinese investors as targets in a political or military conflict.

At the turn of the century, the African Union changed its own position from strict non-interference in the affairs of member states to the right to intervention under certain conditions (such as crimes against humanity). With a brief time lag, China's Africa policy has followed suit. A growing number of Chinese peace-keepers on the continent, more assertive positions towards corrupt and repressive regimes such as Sudan and Angola, and efforts to strengthen the social and environmental guidelines for Chinese overseas investments are all expressions of this evolving foreign policy.

Evolving environmental policies

The Chinese government has always rejected criticism of its environmental footprint in Africa. In response to Paul Wolfowitz's accusation that China was undermining environmental standards, a Foreign Ministry spokesperson maintained in October 2006:

“China has adopted the principle of non-interference of other nations' internal affairs in its foreign relations. China does not accept any country imposing its values, social systems and ideology upon China. Neither will China allow itself to do so to others.”⁴⁴

Actual policies may again be more complex than public statements. After a string of riots in African countries, the Chinese government seems to be increasingly aware that human rights abuses and environmental destruction in Chinese projects can trigger an unacceptable backlash. In January 2007, Cheng Siwei, a leading member of the People's Congress, warned that “irresponsible practices” had prevented Chinese companies from expanding overseas, and predicted: “Even in developing countries, foreign companies that turn a blind eye to their social responsibilities will be kicked out of the market.”⁴⁵ President Hu Jintao repeatedly urged Chinese businesses to respect local laws during his visit to Africa in February 2007.

Government concerns over the impacts of overseas investments have triggered a series of guidelines regarding workers' rights, product safety, community relations, and environmental impacts in such projects. In September 2005, China's Ministry of Commerce suggested that the OECD and China cooperate on issues of corporate social responsibility, and that OECD explain its Guidelines for Multinational Enterprises to Chinese companies.⁴⁶ In August 2006, the Ministry issued recommendations for improving the safety of workers in Chinese overseas investments. It urged Chinese companies to hire local workers, respect local customs and adhere to international safety standards in their projects. The recommendations argue that doing so will serve China's national interest.⁴⁷

In October 2006, the State Council issued nine principles regulating foreign investments of Chinese companies. Among other things, the State Council called on Chinese investors to "fulfill the necessary social responsibility to protect the legitimate rights and interests of local employees, pay attention to environmental resource protection, care and support of the local community and people's livelihood cause", and to "preserve our good image and a good corporate reputation".⁴⁸

In January 2008, the State-Owned Assets Supervision and Administration Commission (SASAC), which administers the enterprises owned by China's central government, issued "instructing opinions about state-owned enterprises fulfilling social responsibility". In this document, SASAC instructed state-owned enterprises to strengthen their corporate social responsibility, including product quality, environmental protection, work safety, labor rights and community relations. By this time, eleven state-owned enterprises had published reports on their corporate social responsibility.⁴⁹ China National Petroleum Corporation and other companies have also adopted the ISO 14001 Environmental Management System.

China Exim Bank was an early example of China's effort to adopt environmental guidelines. The bank adopted an environmental policy in November 2004, and made it publicly available in April 2007. The policy deals with issues before, during and after project implementation. It requires environmental impacts to be studied for a project to receive funding, and states that "projects that are harmful to the environment or do not gain endorsement or approval from environmental administration will not be funded". The policy further stipulates that "once any unacceptable negative environmental impacts result during the project implementation, China Exim Bank will require the implementation unit to take immediate remedial or preventive measures. Otherwise, they will discontinue financial support."⁵⁰

In August 2007, China Exim Bank strengthened its rather general environmental policy by issuing more specific guidelines on social and environmental impact assessment. The guidelines require projects to comply with host country policies – but not international standards – regarding environmental assessment, resettlement and consultation. They stipulate an active role for China Exim Bank in monitoring

environmental impacts throughout the project cycle, and reserve the right to cancel a loan if environmental impacts are not adequately addressed.⁵¹

After a series of meetings in Beijing, a senior OECD expert noted in February 2007 that “the Chinese are quite careful in their appraisal and Exim Bank, for example, does not hesitate to discuss changes in project-related governance to ensure loan repayment (e.g., pressure to raise electricity tariffs to finance hydropower projects), while claiming that it does not specify firm conditions”. It is not clear whether Chinese financiers also apply such assertiveness to the social and environmental appraisal of projects.⁵²

Observers agree that China Exim Bank is interested in international good practice in environmental assessment, but does not accept any political obligation to endorse standards drawn up by other bodies. In May and June 2007, the Bank signed two Memoranda of Understanding with the World Bank and the International Finance Corporation. Under these MoUs, the financial institutions will cooperate in World Bank energy and transport projects in Africa, IFC equity investments, and advisory services on environmental issues.

From guidance to implementation

Guidelines indicate the political intentions of the Chinese government, yet compliance is not mandatory. The central government still owns more than 150 large companies, but has little control over their day-to-day operations. It has even less influence over the numerous provincial, municipal and private Chinese enterprises which are currently exploring Africa.⁵³ As a result, there are countless examples of Chinese investments in Africa which contradict the government appeals for a harmonious society and the tenets of corporate social responsibility.

In recent years, Chinese government agencies have created strong incentives for companies to comply with the country’s environmental laws and guidelines. In August 2007, China’s State Environmental Protection Administration (SEPA), the People’s Bank of China and the China Banking Regulatory Commission jointly prepared a green credit policy. Under this policy, “banks will be stricter about lending to companies that do not pass environmental assessments or fail to implement environment-protection regulations”.⁵⁴ In November 2007, twelve Chinese companies were for the first time withheld loans under the green credit policy.

Chinese companies have a big interest in raising private capital for their expansion plans on the country’s stock exchanges. In August 2007, SEPA confirmed an earlier decision according to which it will inspect companies in polluting sectors – including coal, petroleum, thermal power, chemicals, and textiles – as a condition for the approval of their stock listing.⁵⁵ The following month, Zijin Mining, China’s leading gold producer, closed five polluting mines in order to receive SEPA’s approval for listing

shares on the Shanghai stock exchange.⁵⁶ With support from the chairman of the China Securities Regulatory Commission, the Research Center of the Shanghai Stock Exchange proposed in November 2007 that “the environmental protection conditions of listed companies should be directly linked with their stock issuance and listing”, and that comprehensive finance, credit and tax policies should be used to strengthen their environmental performance.⁵⁷

In October 2007, SEPA and Ministry of Commerce announced that they would ban companies which were found to seriously violate environmental rules from exporting for up to three years.⁵⁸ And in January 2008, SEPA signed a deal with IFC to introduce the Equator Principles in China.⁵⁹ The Principles will become part of the green credit policy, but will presumably also provide guidance for other areas such as the approval of initial public offerings.

None of the measures adopted by SEPA and other agencies explicitly refer to the environmental track record of Chinese overseas investors. They may even encourage domestic producers to relocate their most polluting operations abroad. Yet if the political will exists, all these measures can be used to strengthen the global environmental performance of Chinese companies.

Exporting China’s domestic experience

Traditionally, China’s state-owned companies were responsible not only for providing jobs, but also housing, health care, pensions etc. Under China’s reform process, companies were relieved of their social responsibilities in order to exclusively focus on profits and economic growth. Western investors eagerly embraced this model, which allowed them to evade stricter social and environmental regulations at home. Like every government, China tends to export its own development model through its aid and foreign economic policy. Chinese authorities have for example invited several African delegations to visit the Three Gorges Dam as a model for the continent’s energy sector development.

In recent years, the horrendous cost of the Chinese development model to the environment, public health and ultimately the economy has become evident. The World Bank documented the alarming price which China pays for its air and water pollution in 2007. The Three Gorges Project in particular can no longer serve as an argument for putting growth before the environment. In September 2007, Chinese experts warned that the hydropower dam could “lead to [an environmental] catastrophe” and that “the problems are all more serious than we expected”.⁶⁰

Over the years, the Chinese government took strong measures to address the alarming environmental destruction. It banned logging in old-growth forests in 1998, strengthened the water law in 2002, adopted a strict law on environmental impact assessment in 2003, and ensured public participation in such impact assessments in 2006.

The green credit policy and other measures adopted by SEPA provide the teeth which will enforce stricter compliance of domestic polluters with environmental regulations.

The Chinese government has given strong support to stricter environmental rules in recent years. The government's 11th Plan, which covers the period from 2006 to 2010, promotes a shift away from energy- and resource-intensive industrial sectors towards a more knowledge-intensive and environmentally friendly development model. President Hu Jintao confirmed this theme at the 17th Party Congress in October 2007, and urged the Communist Party to build an "ecological civilization".

The guidelines adopted by the State Council, the Ministry of Commerce, China Exim Bank and other agencies indicate that China intends to address the environmental footprint of Chinese companies overseas. Yet as it happened in Western countries, stricter environmental regulations at home may also motivate Chinese companies to move their polluting operations abroad. This creates risks for regions with weak environmental regulations and enforcement capacities such as Africa.

After China banned old-growth logging in 1998, Chinese timber companies quickly moved abroad. China has become the world's biggest importer of timber. According to a report compiled by globaltimber.org.uk, a high percentage of China's timber and wood imports conflicts with host country laws. The website estimates the percentage of illegal timber and wood imports from Cameroon, Congo Brazzaville, Equatorial Guinea and Gabon to be between 80 and 90%.⁶¹

In September 2007, South Africa's Deputy President Phumzile Mlambo-Ngcuka announced that her government was talking with China about moving polluting Chinese companies to South Africa. "China needs to send some of its polluting industries elsewhere because it is choking on them", Mlambo-Ngcuka said. "We have the capacity to manage emissions and want to regulate that agreement."⁶² The announcement is reminiscent of a memorandum in which the World Bank's chief economist Lawrence Summers argued in 1991 that "under-populated countries in Africa are vastly under-polluted", and that the World Bank should be "encouraging more migration of the dirty industries to the [Less Developed Countries]".⁶³

If China's reputation in the host countries is not to suffer, strict guidelines and regulations are required to avoid the relocation of the country's worst polluters to Africa. Encouraged by a Chinese NGO, the State Forestry Administration and the Ministry of Commerce in August 2007 adopted Guidelines on Sustainable Management of Overseas Forests for Chinese Enterprises.⁶⁴ Similar guidelines and binding policies will be required for other sectors. At the same time, Western governments need to do more to hold their own companies to account for destroying the environment in countries such as China.

Will China eat the world?

In 2005, the United States imported more than three times as much oil from Africa than China. Yet Chinese imports of raw materials are growing quickly, and China's expansion in Africa has stoked fears that its quest for resources will destroy the planet. "China is becoming the sucking force, taking raw materials from across the planet, because it alone doesn't have the resources it needs to sustain its growth", Lisa Mastny of the Worldwatch Institute warned for example in 2005.⁶⁵

Carbon emissions may be seen as a proxy for China's global environmental footprint. According to the Netherlands Environmental Assessment Agency, China's carbon emissions in 2006 for the first time surpassed US emissions by 8%.⁶⁶ Yet these figures do not take into account China's much larger population and role as the world's factory. According to the Tyndall Centre for Climate Change Research, China in 2004 generated about 1,490 million tons of CO₂ for goods that were consumed in other countries. Adjusted for imports, net exports accounted for 23% of China's CO₂ emissions in 2004.⁶⁷ In comparison, the CO₂ emissions of the United States in 2004 would have increased by 13-30% if emissions caused by imports had also been considered.⁶⁸

Even if China's role as a global manufacturing hub is disregarded, the country's per capita emissions of CO₂ were only about one fourth of US emissions in 2006. China is seen as a threat to the global environment because its large population is now catching up with Western consumption levels. Addressing this threat is not simply China's responsibility, but a global challenge, and in particular the responsibility of Western consumer societies.

Conclusion

China has great strategic interests in Africa, and Africa will benefit from a continued strengthening of its cooperation with China. Such South-South cooperation will promote growth and much-needed investment. As China's domestic experience demonstrates, economic growth should however not come at the cost of environmental destruction. As a responsible global actor and a long-term partner in Africa's development, China has a self-interest in strengthening the rules on the social and environmental impacts of its overseas projects.

China has begun the process of establishing guidelines for overseas investments. Given the speed of its global expansion, these guidelines will need to become more comprehensive (in terms of the sectors and types of companies they cover), and deepened through binding regulations. China Exim Bank is an important actor in China's expansion in Africa, and a key instrument for influencing the investment decisions of Chinese companies more generally. Strengthening China Exim Bank's environmental policies will help mitigate the environmental impacts of Chinese investments in Africa. Shifting the

focus of China's concessional loans could foster the export of positive, pro-poor technologies which Africa urgently needs.

African governments can learn from China's experience by being selective in the types of investments which they invite, and by making sure that investments do not undermine the long-term environmental foundations of growth and prosperity. Africa's civil society is taking an active interest in China's role in the continent, and will continue to monitor the sustainability of Chinese investments.

Western governments will become more credible in expressing concerns regarding the environment and good governance if they uphold and strengthen the standards ruling their own overseas investments. They will need to accept their primary responsibility for addressing global environmental impacts. They should do more to promote standards and technologies which can help reduce emissions at home, in China and other countries which are currently catching up with Western consumer societies.

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⁴ Standard & Poor's, Bank Credit Report, Export-Import Bank of China, August 10, 2006, pp. 2ff.

⁵ Standard & Poor's, Bank Credit Report, Export-Import Bank of China, August 10, 2006, p. 5.

⁶ Xinhua, China Exim Bank records 2007 bad loan ratio of 2.45 pct, January 14, 2008.

⁷ The Export-Import Bank of China hosted a Symposium on Financing and Project Cooperation in Africa, press release, July 24, 2007. In comparison, China Exim Bank reportedly told the chairman of the OECD's Development Assistance Committee in February 2007 that it had outstanding loans of \$8-9 billion in Africa. (See OECD, Development Assistance Committee, *The Chairman, Visit to Beijing with Michael Roeskau and Jens Sedemund*, 9-12 February 2006 [sic], 22 February 2007, p. 5.)

⁸ Gao Zhen, *Infrastructure Development in Africa Supported by The Export-Import Bank of China*, 17 January 2007.

⁹ Harry G. Broadman, *Africa's Silk Road, China and India's New Economic Frontier*, The World Bank 2007, p. 275.

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¹¹ *Strengthen China-Africa Cooperation for Mutual Benefit*, Address by Wen Jiabao, Premier of the State Council Of the People's Republic of China At the Opening Ceremony of the High-level Dialogue Between Chinese and African Leaders and Business Representatives, 4 November 2006

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